FINANCIAL TIMES

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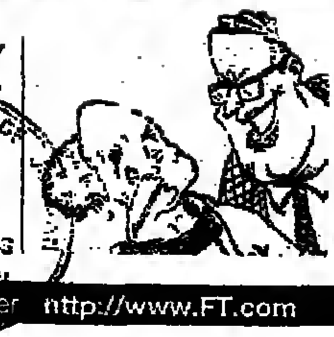
THURSDAY DECEMBER 12 1996



Israel and Turkey

Peace process key to defence pact

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Product strategies

Marketing matters more than innovation

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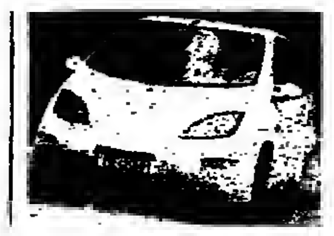

Green cars

Can Smile compete with Smart and Ka?

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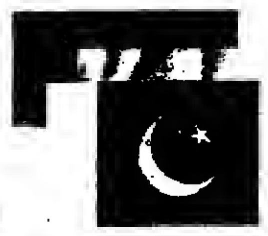

Today's surveys

Cambridge, Pakistan Kuwait

Separate sections; Pages 21-23

Brussels attacks Russian plan for border taxes

The European Commission yesterday launched a formal diplomatic complaint to Moscow over a Russian border tax to be levied on all goods and people. The new tax means everyone, Russian or not, will pay $10 to leave or enter the country. Aircraft, trains and cars will be taxed according to cargo and passenger numbers. Trucks face a uniform $180 levy. European commissioner Hans van den Broek said the move went "against the spirit" of last summer's interim trade agreement between the European Union and Russia.

Changes at Spanish bank: Argentaria, part state-controlled Spanish banking group, plans to use almost half this year's expected pre-tax earnings to restructure its balance sheet. Francisco Gómez Roldán, head of retail banking, takes the new role of chief executive. Page 15

...A alliance assailed: The UK government's ...ditions for approving an alliance between ...tish Airways and American Airlines are completely inadequate" for promoting competition, said Stephen Wolf, chairman of rival USAir. Page 14 and Lex

Russia accepts Nato invitation to talks:

Russian foreign minister Yevgeny Primakov, left, told Nato secretary general Javier Solana that Moscow was ready to take up Nato's suggestion of a dialogue that could lead to a formal Nato-Russia charter by summer. "This opens the way to fruitful discussions," he said, while reiterating Moscow's opposition to Nato's enlargement plans. Page 2

Deal creates US insurance giant: Aon Corporation of Chicago is to buy Alexander & Alexander Services of New York in deal valued at about $1.23bn. The companies say it will create the world's largest insurance broker. Page 15; Lex, Page 14

Libya denies missile deal: Libya has dismissed a report that it is buying ballistic missiles from Ukraine; Ukraine has also denied it. The UN has banned arms sales to Libya over its failure to hand over suspects in the 1988 bombing of a US airliner over Scotland.

Indonesian telecoms sale: Indonesia is selling 388m shares of the state telecoms giant Telkom to raise $600m to speed up payments on foreign debt. The block sale represents 4.15 per cent of the paid-up capital of Telkom, which floated 15 per cent in November last year.

Scotland's food poisoning outbreak, caused by the E-coli bacteria, claimed its 11th victim with the death of a 70-year-old man in a Glasgow hospital. There are now more than 200 confirmed cases of, making it the worst outbreak in Britain.

Agreement on the Ganges: India and Bangladesh were due to sign an accord today on sharing the waters of the Ganges River, settling what has been the chief dispute between the neighbours for more than 20 years. Page 4

UK minister quits: David Willetts quit as a junior minister after being strongly criticised by fellow legislators. They had been looking into claims that be tried to influence a committee's investigation into the behaviour of another Conservative MP. Page 8

Shell to put $10bn in Gulf of Mexico: Shell Oil, the US arm of the Anglo-Dutch petroleum group, has lined up nine deep-water oil and gas projects in the Gulf of Mexico and is prepared to spend up to $10bn developing them. Page 14

Danes survive fighter crash: Two Danish airmen were taken to hospital after ejecting when their F16 fighter aircraft crashed soon after take-off from a British Royal Air Force base in Norfolk, eastern England.

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STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	6,379.45	(-93.80)
NASDAQ Composite	1,299.65	(-12.90)
Europe and Far East		
CAC40	2,213.28	(-38.12)
DAX	2,841.05	(-49.95)
FTSE 100	3,982.5	(-53.2)
Nikkei	20,568.38	(-253.74)

US LUNCHTIME RATES

Federal Funds	5⅛%
3-mth Treas Bills: Yld	4.916%
Long Bond	98½
Yield	6.579%

OTHER RATES

UK: 3-mo Interbank	6⅛%	(6⅛%)
UK: 10 yr Gilt	99½	(100¼)
France: 10 yr OAT	104.98	(105.67)
Germany: 10 yr Bund	102.61	(103.40)
Japan: 10 yr JGB	103.8273	(104.165)

NORTH SEA OIL (Argus)

Brent Dated	$22.89	(23.89)

GOLD

New York Comex		
(Dec)	$370.6	(370.5)
London:		
close	$368.8	(same)

DOLLAR

New York: lunchtime		
£	1.6575	
DM	1.542	
FFr	5.2215	
SFr	1.314	
Y	112.90	
London:		
£	1.6557	(1.6515)
DM	1.5412	(1.5538)
FFr	5.2177	(5.2560)
SFr	1.313	(1.3265)
Y	112.85	(113.345)
Tokyo close:	Y 112.85	

STERLING

DM	2.5518	(2.5665)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr250	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£30.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 8.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (m'land)	Es265	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

First post-colonial leader hailed as steady hand for transition

Hong Kong picks shipping tycoon as new governor

By John Ridding in Hong Kong

Mr Tung Chee-hwa, the shipping tycoon, gave an optimistic and patriotic assessment of Hong Kong's prospects following his selection yesterday as the territory's first post-colonial governor.

Speaking after winning 80 per cent of the votes in a Beijing-backed electoral college, he said: "For more than a century Hong Kong has been a colony. Now we are finally masters in our own house... I believe we can do better than before."

His selection marks a milestone in Hong Kong's return to Chinese sovereignty in July. Although criticised for his conservative political and social views by the territory's pro-democracy politicians, Mr Tung is seen as a steady hand who can help reconcile Hong Kong and Chinese interests. China heralded his selection as a historic event.

"It is an exhilarating moment and a completely new era," said Mr Qian Qichen, the Chinese foreign minister. He travelled to the territory for the session of the 400-member Selection Committee, itself chosen by a Beijing-appointed committee.

Speaking against the backdrop of a curtain adorned with the seal of the People's Republic of China, he said: "It is the first time that the people of Hong Kong are selecting their leader. You are writing history today... Hong Kong people will rule Hong Kong."

But pro-democracy politicians staged demonstrations outside the building where the ballot was held. Condemning the selection process, they erected a "tomb for democracy" and attacked Beijing's plan to replace the territory's elected legislature.

Twenty-nine demonstrators were arrested, including Ms Emily Lau, a prominent legislator, who was later released.

Mr Chris Patten, the Hong Kong governor, gave a vote of confidence in Mr Tung and offered him "all the necessary assistance" during the run-up to the handover. But he urged him to defend the autonomy promised Hong Kong under Sino-British treaties.

Critics question whether Mr Tung, who has close personal and business links with China, will do that. Mr Martin Lee, chairman of the Democratic Party, the largest group in the legislature, said it would co-operate with Mr Tung for a probationary period.

The business community was less equivocal. Mr Tung, an advocate of stability during the transition and of the territory's policies of low taxation, is seen as steering a steady course on economic issues.

"His pro-business stance and his prudent management style will boost confidence," said Mr Henry Tang, chairman of the Federation of Hong Kong Industries.

Taiwanese officials said Mr Tung's selection could help improve bilateral ties, despite Taipei's scepticism over the one country, two systems formula Beijing hopes to extend from Hong Kong to Taiwan.

But Mr Tung will quickly be faced with contentious issues. These include this month's formation of the so-called provisional legislature.

Rail ambitions scaled down, Page 4; Uncharted territory and Observer, Page 13

Shipping tycoon Tung Chee-hwa talks to reporters on being chosen as Hong Kong's first post-colonial governor; he had a crushing victory in a Beijing-backed electoral college *Picture: AP*

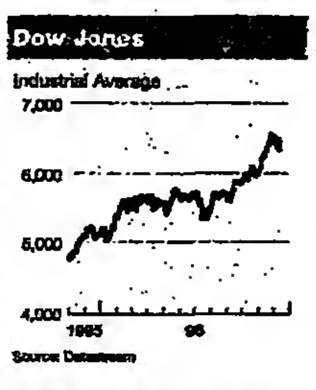
Markets fall as investors take profits

By Philip Coggan in London and Lisa Bransten in New York

World financial markets suffered another bout of nerves, after their "frantic Friday" last week, as investors decided to bank some profits at the end of a healthy year.

Several factors provoked the profit-taking, including a report that Japanese investors might reduce their commitment to the US Treasury bond market, and fears of an increase in political tension between the US and Iran.

European markets were nervous ahead of the Wall Street opening and their fears appeared justified when the Dow Jones Industrial Average opened sharply lower. Share prices bounced around but by late morning in New York the market was more than 100 points down.



Source: Datastream

A slight rebound in late trading left it 79.19 points lower at 6,394.06. The 30-year Treasury bond shed about 1¼ points.

There were signs that investors have become jittery after last week's comments from Mr Alan Greenspan, the Federal Reserve chairman, about "irrational exuberance" in stock and other asset markets.

Among the rumours which failed to come true yesterday was speculation that US producer prices would be much higher than expected (they were roughly in line with forecasts) and that IBM would issue a profits warning. However, Union Carbide, the chemicals company, did say fourth quarter profits would be hit by a rise in raw materials costs.

Mr Michael Metz, chief investment strategist at Oppenheimer, attributed the sell-off to a sharp rise in bond yields that made the stock market appear "seriously overvalued".

Although each new low appeared to bring in new buyers yesterday, Mr Metz was not convinced that such a trend could continue indefinitely.

"Investors have been trained, it's almost a Pavlovian response to buy on the dip," he said, but that will stop when the strategy ceases to work.

Analysts said the stories about Japan and Iran might merely have provided an excuse for investors to sell. Japanese investors have been big buyers of Treasury bonds, helping to keep yields low and finance the US's trade and budget deficits; a change of attitude would certainly be a threat to markets. However, figures published yesterday showed that Japanese purchases of foreign bonds in October were the highest since June 1995.

Mr Mark Brown, head of strategy and economics at ABN-Amro Hoare Govett, said: "The reasons given for the market drop look pretty flimsy and that's a sign of the market's vulnerability."

Mr John Shepperd, chief economist of Yamaichi International (Europe), said: "The fact that the markets are being spooked by stories that would normally have no impact is symptomatic of how nervous investors are this time of year. The markets are eager to lock in profits."

World stocks, Page 36; London stocks, Page 32; Bonds, 24

Oil prices tumble as Iraqi supplies return to market

By Deborah Hargreaves in London

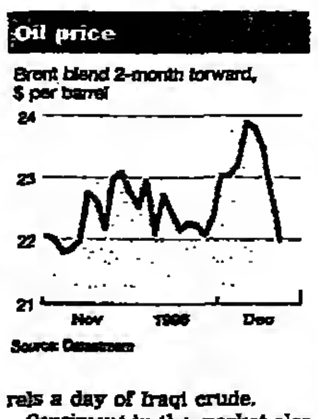
Crude oil prices tumbled yesterday in response to the return of Iraqi crude to the market and slides in heating oil and gasoline prices.

January futures prices for North Sea Brent crude closed at $22.675 a barrel on London's International Petroleum Exchange as hedge funds sold oil futures. On Tuesday they closed at $23.29.

Heating oil futures have lost 10 per cent of their value over the past three days and gasoline prices are down from 70 cents to 64 cents a gallon. The falls follow recent strength in the market.

A London trader said: "It was a products-led rally and, now they hava bombed out, the market is collapsing."

Iraqi oil exports began for the first time in six years yesterday after the agreement of an oil-for-food sale with the United Nations and the signing on Tuesday of a deal by Turkey to import 75,000 barrels a day of Iraqi crude.



Source: Datastream

Sentiment in the market also changed because other factors that had buoyed prices began to weaken. Low stock figures in the US had kept prices for heating oil and gasoline high recently as traders expected strong winter demand.

But stocks have risen in the past few weeks. The American Petroleum Institute reported a 6m barrel rise in gasoline stocks last week to 195m barrels, with crude stocks up 324,000 barrels. Yet stocks are still 10-20 per cent below levels at this time last year.

Mr Peter Bogin, oil analyst at Cambridge Energy Research Associates in Paris, said: "It has been a confused week as the market is looking at the price of Iraqi crude and how steady the flow of oil may be."

Some analysts believe the oil market's recent strength has been overdone. Mr Ken Miller, analyst at Purvin & Gertz in Houston, sounded a note of caution about the market's ability to absorb extra Iraqi oil.

"There has been an anticipation that Iraqi oil can be absorbed by higher demand but that's not what our balances show," he said.

Mr Miller believes production by countries outside the Organisation of Petroleum Exporting Countries will grow by 1.7m b/d in 1996-97. This would take non-Opec output to 39.3m b/d next year from 37.5m b/d in 1996. This increase does not include production from

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Commodities, Page 26

López accused of betraying company secrets

By Wolfgang Münchau in Frankfurt

German prosecutors have indicted Mr José Ignacio López, who quit as Volkswagen's production chief two weeks ago, on the criminal charge of betraying company secrets.

The prosecutor in Darmstadt, near Frankfurt, has sent the indictment papers to Mr López. It has also informed General Motors, Mr López's former employer, which alleges that he embezzled company secrets before his departure for the VW board in 1993.

If convicted, Mr López faces a jail sentence of up to five years. His indictment marks the climax of a highly damaging dispute between the two companies which has threatened US-German relations.

The German authorities gave no details of the indictment, but Mr López's lawyers and public relations consultants said the prosecutor had accused him of taking and using internal GM documents.

They specifically referred to a "provisional study" for an experimental GM production plant in Spain. But Mr Jürgen Taschke and Mr Eberhard Wahle, Mr López's lawyers, claim the study did not contain any secrets. They also deny that Mr López exchanged any company secrets with other VW staff, or that GM or Adam Opel, its German subsidiary, has suffered any damages as a result. They said they would apply to have the case thrown out of court for lack of evidence.

The prosecutor has also indicted three of Mr López's closest associates, including two managers at Seat, VW's Spanish subsidiary.

GM said yesterday "that secret Opel documents must have come under the possession of Volkswagen. This also makes it clear that attempts by Volkswagen to portray the affair as a private matter for Mr López are misleading".

The dispute has so far triggered 11 court cases between

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Deep chill grips Franco-US relations

Transatlantic battles contrast strongly with Russian charm offensive at Nato

By Lionel Barber and Bruce Clark in Brussels and John Thornhill in Moscow

This week's Nato meeting in Brussels has seen Russia and the alliance, for all their differences, very much on speaking terms. But the *same can* hardly *be said of* Paris and Washington.

US officials describe the public arguments with France that surfaced at the meeting as only the tip of a larger iceberg created by a general plunge in the temperature of Franco-American relations.

"The French and the Americans are fighting," said one US official, citing differences over Europe, the leadership of the United Nations (Paris backed the incumbent Mr Boutros Boutros Ghali over Mr Kofi Annan, the US choice) and the Zaire crisis.

By contrast Mr Yevgeny Primakov, the Russian foreign minister, *was making peace. He pleased his* Nato counterparts yesterday by saying that Moscow was ready to take up the alliance's suggestion of a dialogue which could lead to a *formal Nato-Russia charter by the* summer.

"This opens the way to fruitful discussions," he said, while reiterating Moscow's opposition to Nato's enlargement plans.

In a break with previous Russian practice, Mr Primakov avoided rejoicing openly over Nato's internal problems. He described Mr Javier Solana, the Nato secretary-general, as a "nice-looking person" with whom he was prepared to do business.

But internal problems, and in particular the strained Franco-American atmosphere, were there for all to see.

*Mr Warren Christopher, the out*going US secretary of state, clashed with his French counterpart, Mr Hervé de Charette, over a raft of issues, of which Nato's southern *command, where Paris* wants a European in charge, is only the best known.

France also opposes the US initiative to create an Atlantic Partnership Council, grouping Nato and all its former adversaries. It also views as premature a US proposal for Nato and Russia to exchange more liaison officers.

US diplomats were intensely irritated when Mr de Charette left the room during a speech by Mr Solana in praise of Mr Christopher and accused the French minister of failing to say anything polite about his US counterpart's retirement.

French officials insist that there was no intention of snubbing Mr Christopher and accuse Washington of exaggerating some honest differences over European security, in which Paris is by no means alone.

"Somebody is poisoning the atmosphere, and it is not us," said one French insider. "Perhaps it is the legitimacy of our proposals which is upsetting the Americans."

Compared with these barbed exchanges, the tone adopted by Mr Primakov was sweetness and light. But the continuing Russian scepticism about Nato was underlined by the latest comments in Moscow.

Mr Yuri Baturin, secretary of Russia's defence council which met yesterday, said he did not consider Nato currently threatened Russia, but its expansion did not answer Europe's security interests.

"If Nato is viewed by the western powers as the kernel of European security, then why does it not admit Russia?" Mr Baturin said. "If Nato is a defensive bloc, then who is it against?"

Nationalist politicians were more outspoken. Mr Victor Ilyukhin, Communist chairman of parliament's security committee, said Russian missiles should be retargeted against countries joining Nato. He called for "political and economic counter-measures" against the new members, and said Russia should strengthen defence ties with its neighbours.

Emu stability pact deal on the cards

By Lionel Barber in Brussels and David Buchan in Paris

EU finance ministers meet today in Dublin amid guarded optimism about an 11th hour deal on the rules for enforcing fiscal discipline in the future single currency zone.

Mr Jean-Claude Trichet, governor of the Bank of France, said he had no doubt that member states would iron out their differences on the budget stability pact. The Irish presidency and the European Commission expressed confidence in a "political deal" ahead of tomorrow's EU summit.

The chief obstacle to a deal is Germany's insistence on near-automatic penalties against countries running excessive budget deficits after they join economic and monetary union. Almost all countries consider the German demands too rigid.

Senior diplomats in Brussels believe failure to reach a deal would signal a shift in German negotiating tactics. "All the elements of a deal are there," said one diplomat. "If Chancellor Kohl does not support it, he is more constrained by public opinion than we thought."

Germany has said that only an annual fall in gross domestic product, of either an average 1.5 per cent or a year-on-year drop of 2 per cent, should constitute the "exceptional circumstances" allowing a country to escape penalties for running a deficit beyond 3 per cent of GDP.

A French official said the Council of Ministers "should not have its room for political appreciation [of a country's recession] reduced by purely quantitative criteria", adding that almost all other aspects of the stability pact were agreed.

*Last night in Brussels, offi*cials from the EU's monetary committee of central bankers and national treasury officials were discussing a compromise meeting most German demands.

Countries running budget deficits of 3 per cent which suffer an annual fall of GDP up to 1.5 per cent should be presumed guilty, though the final decision would be made by ministers on the basis of a recommendation by the Commission. Germany could also expect a political declaration supporting *fiscal dis*cipline at the next EU summit, in Amsterdam.

Richard Lapper adds: Emu will be a catalyst for the continent's corporate bond market, according to a report published yesterday by the investment bank SBC Warburg. As companies take advantage of the absence of foreign exchange risk and lower levels of interest rates, it says, they may rely less for their financing on bank loans and issue more bonds.

Editorial Comment, Page 13

The European Commission is about to unveil a new logo (pictured left) for the euro, the future single currency, which will be used in its Ecu30m ($37m) publicity campaign next year. Officials hope that the yellow symbol on a blue background will raise public awareness about the euro.

Tomorrow at the EU summit in Dublin, the European Monetary Institute will unveil the designs for the euro notes which are expected to come into circulation in 2002 when the final switchover to the single currency union takes place. *The Commission acknowledged yesterday that* the new logo would not necessarily appear on the notes.

Commission chief says no enlargement without EU reform

UK in Santer's sights again

By Caroline Southey in Strasbourg

Mr Jacques Santer, president of the European Commission, yesterday implicitly accused Britain of blocking the Union's enlargement ambitions by taking a minimalist approach to changing the way the EU operates.

In a speech to the European parliament two days before the EU heads of government meet in Dublin, he said that countries could not argue for expansion into central and eastern Europe and at the same time resist reforming EU institutions.

He also attacked British Eurosceptics for suggesting Brussels was intent on destroying national sovereignty, dismissing the view that the EU should revert to a mere free-trade zone.

The speech reflects Mr Santer's hardening attitude towards the UK government, which he has made a point of criticising in recent weeks. He implied in one speech that it was in favour of Dickensian sweatshops.

The two-day summit starting in Dublin tomorrow is due *to consider draft revi*sions to the Maastricht treaty negotiated in the current inter-governmental conference. But the Commission has grown frustrated with what it considers the IGC's slow progress.

Britain has generally taken a hardline stance over many of the proposed reforms, including a blanket refusal to accept any extension of qualified majority voting and its resistance to incorporating the social chapter into the treaty.

"Those who are most firmly against institutional *reform are the keenest sup*porters of enlargement," Mr Santer said. "But those who oppose reforms are inevitably slowing the acceptance of the first new members."

Addressing himself to Eurosceptics in the UK, he argued that "no member state is capable of acting alone" and that the EU was "not the enemy of national sovereignty. On the contrary, those who want to strengthen sovereignty in the world of today and tomorrow can only do it with a strong and influential Union".

Jacques Santer: hardening attitude towards UK

EU summit will have a populist flavour

Heads of government will concentrate on what touches their citizens, writes Emma Tucker

Selling "Europe" to its citizens has never been the strong point of the political leaders who gather in Dublin tomorrow.

But in an effort to show the European Union is not just about harmonisation directives and competition policy, the Dublin summit of EU heads of government will have a populist flavour.

The buzzwords will be drugs, terrorism, organised crime and above all, the free movement of people.

"The leaders are looking for something which people can identify with and these seem to be areas that correspond with public pre-occupations," commented an EU diplomat.

Last week, the Irish presidency unveiled proposals to turn the Union into a border-free area in which people can move about freely and safely.

This would be done by removing frontier controls between member states, and full cross-border co-operation by police and judicial authorities.

The idea is enshrined in the 1986 Single European Act, but little progress has been made in turning promises into reality.

This has largely been because Britain has used its veto to block significant advances, unwilling to cede sovereignty over immigration, asylum, visa and frontier controls and criminal justice matters.

But now integrationist leaders led by Germany's Chancellor Helmut Kohl, confident the public is more interested in safe streets than abstract notions of sovereignty, have decided to give the neglected area a high-profile push, making it central to proposed revisions to the Maastricht treaty.

Ireland, as host, has a special interest. The country has suffered from a spate of drug-related crime. Public outrage reached a crescendo last summer when a journalist investigating the drugs mafia was assassinated by hired gunmen.

The Irish have won strong backing from the French and the Germans, the EU's most powerful members. With their own problems of terrorism, drug trafficking and car theft, they are pressing for closer co-operation on justice and home affairs.

In a letter sent this week to the Irish EU presidency, Mr Kohl and President Jacques Chirac of France mapped out new goals for a gradual harmonisation of member states' laws against organised crime.

The plans are similar to the Irish draft text for revision of the Maastricht treaty. Its main tenets include creation of one external EU border in which everyone can have confidence and the subsequent abolition of internal borders: a common visa list; common rules on asylum; increased police co-operation and a central judicial role for the European Court of Justice. The draft suggests setting an overall target date of January 1 2001 to complete the legislation.

Some of these are already in place. For example, a core group of EU countries has agreed to suppress frontier controls under what is known as the Schengen agreement.

Though this has not worked perfectly, with France insisting on keeping its checks in place, it has at least allowed those countries that want to co-operate more to do so.

Similarly, a common EU visa list exists. But in the absence of one external border, and with member states still responsible for their own border checks, many people arriving from non-EU countries require separate visas for each EU country they visit.

The question confronting the EU leaders is how to achieve this vision for an "area of freedom and security". Virtually all countries, except for Britain, and possibly Denmark, are quite clear on what needs to be done.

They want to abandon existing arrangements which require governments to reach decisions via a consensus, allowing one country to stall progress for as long as it wants.

In its place they want a tighter regime, under which decisions are taken by qualified majority votes, and the Commission is given the right to initiate legislative proposals.

The British line is that today's loose system of co-operation is all that is needed.

Mr Michael Howard, British home secretary, meeting his counterpart in Germany this week, was uncharacteristically enthusiastic about the need for Britain to work closely with its partners on matters relating to crima and spoke warmly of achievements already made.

However, he emphasised that this could only be on the basis of "practical co-operation", without the need to "sign up for lots of text".

Britain's case is weakened by the fact it has time and again used its veto to block initiatives. For example, British reservations delayed the adoption of Europol – Europe's cross-border police intelligence agency – for more than a year.

A convention for establishing one external border remains on the table because of British problems over Gibraltar as well as objections to giving the European Court of Justice a role as arbiter in its administration.

The hitch is that to make any changes to the treaty, unanimity is required. Of course, Britain has already made it clear it would oppose the changes.

The hope in Brussels is that a Labour government under Mr Tony Blair would be more flexible.

But given Britain's traditional sensitivities to border controls and immigration, the only logical way forward may simply ba to leave Britain out.

Timetable for Dublin

Today:
Finance ministers meet to iron out a deal on the single currency stability pact.

Friday:
Heads of government open two-day summit to discuss monetary union and the inter-governmental conference to revise the Maastricht treaty.

Saturday:
EU leaders meet their counterparts from central and eastern Europe to discuss the strategy for enlargement and complete drafting of a final communique from the summit.

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Germany promotes capital markets

By Andrew Fisher in Frankfurt

A new campaign to overcome the "image problem" of Germany's capital markets and *strengthen* them ahead of European monetary union was launched yesterday by leading German bankers, businessmen and securities officials.

Mr Rolf Breuer, a director of Deutsche Bank who will become chairman in May, said German markets were "better than their reputation" in terms of products, technology and *efficiency. He denied* what he called "myths" still circulating abroad about lack of innovation, domination of trading by German banks, insider trading and inability to undertake *big global share issues.*

The record DM20bn ($13bn) Deutsche Telekom share issue had shown what could be achieved in the German new issues market, Mr Breuer added. *Moreover, statistics* showed that foreign banks had a big share of transactions on German securities and futures and options exchanges.

Mr Breuer, who also heads the *supervisory board of Deutsche Börse* which runs the Frankfurt securities exchanges, said Germany's financial markets should move into "the first division". This would be even more important after Emu, when international investors and issuers of securities would look beyond their own markets to find the best trading centres for euro-denominated products.

Germany needed, therefore, to prepare more intensively for the post-Emu area.

"We have an image problem," Mr Breuer added. "Wa have not succeeded in putting our arguments across effectively enough." Thus the campaign – not limited to Frankfurt, Germany's dominant securities trading centre – would work towards *improving* the country's financial market image and achieving further reforms.

This will be done through a newly founded Finanzplatz (financial market) association. Apart from Mr Breuer, founding members of this task force include Mr Werner Seifert, the chief executive of Deutsche Börse, and directors of Dresdner Bank, Commerzbank, Siemens, Hoechst and Lehman Brothers, the US investment bank.

Mr Breuer stressed that Emu, due to start in 1999, would lead to considerable concentration among financial markets, not least on cost grounds, as interest rate and currency risks were removed for those investing across Europe. Thus Germany *still* needed to make considerabla efforts to compete against France, which has been heavily promoting its own financial market attractions, and the UK.

*London would retain its impor*tance after Emu, regardless of whether the UK was in at the start or not. The City had a huge reserve of financial talent "which puts us *and the French deep in the shade*".

EUROPEAN NEWS DIGEST

Spanish strike over pay curb

The first nationwide strike movement against austerity policies under Spain's centre-right government became a battle of statistics yesterday to determine whether it was a success or a failure.

A government spokesman said "reliable" figures showed that only 18-20 per cent of public sector employees stayed away yesterday in the protest against a pay freeze next year. But trade unions claimed 1.2m had joined the movement, about 80 per cent of those called on to strike.

The strike's impact was lessened by non-involvement of public transport and port workers and by emergency staffing levels to ensure such services as hospitals, firefighting and air traffic control could function.

The government said the union campaign had "little following" and the vast majority of public sector employees evidently *understood the* need for measures to help Spain's bid to join the European single currency.

The pay freeze is aimed at saving up to Pta200bn ($1.53bn) on the state budget next year, the base period for qualifying for monetary union. *David White, Madrid*

New blow to Bonn on sick pay

Employers and unions in the North Rhine-Westphalia metal industry last night struck a landmark pay deal that provided powerful support for opponents of federal legislation permitting cuts in sick pay. The deal covers 850,000 workers in Germany's largest regional pay negotiating area. It will retain sick pay at 100 per cent of wages. It will also see wages rising by 1.5 per cent next year and 2.5 per cent in 1998.

The agreement follows a similar deal in the Lower Saxony metal industry. That deal alarmed employers and members of Chancellor Helmut Kohl's ruling coalition in Bonn, who regard a cut in labour costs as essential to restoring competitiveness and reducing unemployment. Legislation allowing a cut in sick pay to 80 per cent of wages came into effect this autumn. *Ralph Atkins, Bonn*

Warning over EU telecoms

Telecoms operators failing to provide access to their networks for new competitors quickly and at a fair price after the market is opened to competition in 1998 could be fined by the European Commission, according to proposals published yesterday.

Tha Commission published a draft notice on access to telecoms networks, one of the remaining *parts of the legal* framework for the sector after liberalisation. Interested parties have until February to comment.

National regulatory authorities would have primary responsibility for dealing with abuses, but abuses with a risk of *"serious and irreparable harm"* to the complainant or public interest could be notified to the Commission.

■ The European Commission yesterday failed to adopt a proposal to reduce use of landfill sites, after objections were raised by the office of Sir Leon Brittan, one of the European Union's UK commissioners.

■ An eight-year battle to agree rules on liberalising the EU's electricity market ended yesterday when the European parliament approved a proposed directive creating a single market in electricity – the last hurdle for the controversial package. *Foreign Staff*

Serb workers 'joined rallies'

Independent trade unions in Serbia said yesterday that 10,000 of their members had joined the daily demonstrations over the cancellation of opposition local election victories last month, but that many more had been warned against leaving their factories.

The Serbian authorities have so far refrained from using force against the protests, apparently waiting for them to lose steam. But a statement yesterday from the Yugoslav interior ministry, warning it would intervene if the protests became violent, raised fears among diplomats that President Slobodan Milosevic might be considering a change of strategy.

Western governments have warned Mr Milosevic against the use of force. Washington has threatened to re-impose sanctions, which would hit the Yugoslav economy hard.

The European parliament yesterday urged the EU to delay moves towards establishing *closer relations* until the election results are respected. *Laura Silber, Belgrade*

Dutch football chiefs quit

The board of the Dutch football association's professional division resigned yesterday over the collapse of Sport 7, a fledgling commercial cable television channel to which it had sold the rights to screen matches.

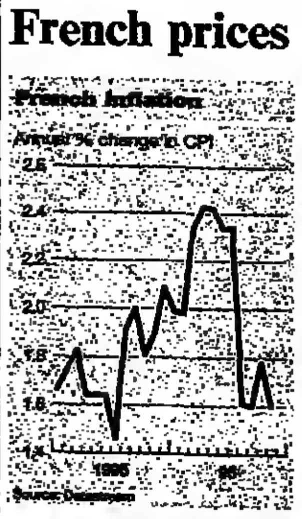
Sport 7 – which has been deserted by advertisers as ratings slid – received the final blow yesterday when Mr Hans Wijers, economy minister, wrote to tell directors of the association that while they were entitled to sell broadcast rights covering Holland's international games, they had no such claim over fixtures between clubs in the domestic professional league. This supported the position taken by Ajax and *Feyenoord*, the two largest clubs, which had argued that broadcast revenues from home matches belonged to them.

Liva coverage was taken away from NOS, the public broadcaster, when Sport 7 was launched in August in a Fl 100m ($57m) investment by groups including Philips, the electronics manufacturer, ING, the bancassurance combine, and Endemol Entertainment, the country's biggest TV production house.

Mr Joop van den Ende and Mr John de Mol, the two main shareholders of Endemol, bought their stake of nearly 20 per cent back from their company soon after Endemol gained a listing on the bourse last month. *Gordon Cramb, Amsterdam*

ECONOMIC WATCH

French prices fall 0.1%



French consumer prices fell a provisional 0.1-0.2 per cent in November after a 0.3 per cent rise in October, the statistics office Insee said. The provisional year-on-year inflation rate fell to 1.5-1.6 per cent in November from 1.8 per cent in October, Insee added. Economists were looking for a month-on-month rise of 0.1-0.2 per cent in consumer prices in November and a year-on-year increase of 1.8-1.9 per cent. The ministry said the November decline resulted from a 0.6 per cent drop in prices of manufactured goods, which had risen 0.4 per cent the month before.

This sharp reversal was mainly accounted for by changes in car prices, which rose in October when government financial aid for new car purchases came to an end. Car prices fell in November as manufacturers introduced special offers to compensate for the ending of the government incentive, it said. *AFX, Paris*

■ Wholesale prices in Germany fell 0.6 per cent in November from October, but were up 0.4 per cent from November 1995. In October, wholesale prices climbed 0.2 per cent month-on-month and were up 0.9 per cent year-on-year.

NEWS: EUROPE

Eastward expansion 'could be postponed indefinitely'

Hopes for EU growth by 2000 'very optimistic'

By Kevin Done, East Europe Correspondent

Predictions that some of the more advanced economies in east Europe might enter the European Union by the year 2000 appear "very optimistic", according to a report by the United Nations Economic Commission for Europe.

Even assuming smooth negotiations and speedy ratification, tha most advanced of the "transition" economies would be unlikely to join "before the middle of the next decade".

The ECE acknowledges the achievements of many east Europe countries since 1989, but says much remains to be done before they can function as full members of the EU.

The commisaion also warns that little headway can be made on enlargement of the EU until existing member states make significant progress in the current inter-governmental conference (IGC) on reforming the way the EU operates.

If the IGC fails to deal effectively witb the big problems facing the Union, especially those affecting the process of decision-making and the effectiveness of the present institutional structure, the accession of east European countries "could be postponed indefinitely".

Such an outcoma would pose "considerable risk of negative effects" on the development of both market economies and new democratic institutions in east Europe.

The ECE says east European countries see membership of the EU as crucial for sustaining the process of integration, with western market economies and achiaving long-term rates of growth that would eventually close the gap in income and development between east and west. Even more important, it is seen by most policymakers in east Europe as a way of underpinning new democratic institutions and increasing security in the region.

The ECE questions the capacity of central European countries to compete within the single market without instituting further far-reaching reform. Considerable efforts will be required in the region for accession to be feasible "even by the middle of the next decade".

"For the aconomies in transition it is not obvious that they can, or even that they can afford to, narrow the gap sufficiently between what is demanded by the Union's rules and what they are able to deliver in just a few years' time, unless strenuous efforts are made to accelerate the transformation process."

The ECE argues for a longer pre-accession period to give candidate countries more time to restructure their economies "to participate as equal partners in the highly specialised and sophisticated division of labour prevailing in the EU".

It says it is an illusion to believe that such changes can only be achieved by rapid entry into the EU.

Many advantages of membership, such as access to the single market, economies of scale and direct investment by western companies, could he achieved before entry.

"A rushed and premature entry of the transition economies into the EU is unlikely to be in their longer-run economic interests, if they are unable to face full-fledged competition in the single market."

Embattled Kuchma sacks aide

By Matthew Kaminski in Kiev

Mr Leonid Kuchma, the Ukrainian president, has sacked his closest adviser, in a move aimed at bolstering his weak political position. The removal of Mr Dmytro Tabachnyk as chief of staff follows persistent calls in parliament for his resignation and attacks in the media.

Even former presidential allies in the chamber have turned on Mr Kuchma for allegedly condoning corruption in his administration.

Mr Kuchma, who has cultivated an image in the west as a proponent of economic reform and Ukraine's sharp turn toward the west, has been politically embattled at bome after getting a new constitution through parliament in June.

Analysts in Kiev believe be may regret the departure of his most loyal adviser, who ran the president's 1994 campaign, as divisione within the government widen ahead of election campaigns in the next two years.

Mr Pavlo Lazarenko, tbe prime minister, has emerged as a potential challenger for the presidency after accumulating economic power through control of the lucrative energy sector. His relations with Mr Kuchma have been strained.

Kuchma: weak position

Mr Tabachnyk was not linked with the prime minister's group of advisers from Dnepropetrovsk, who bave come to dominate government since Mr Lazarenko's appointment in May.

His departure may endanger the position of Mr Sergei Osyka, the minister of foreign economic relations, and other cabinet members associated with tbe Kiev-based political and economic establishment.

The president's support in parliament is diminishing as the chamber begins to discuss the 1997 budget and a packet of unpopular economic reforms needed for western aid next year.

His aides have been concerned the Communists and Socialiats are gaining strength with the growing disenchantment over economic weakness ahead of 1998 parliamentary elections and as Mr Lazarenko broadens his parliamentary base of support among the agricultural and industrial lobbies.

Bonn outlines multimedia law

By Ralph Atkins in Bonn and Frederick Stüdemann in Berlin

The German government yesterday claimed to be leading the world in regulating multimedia when it outlined proposals for a federal law to protect data as well as safeguard against pornograpby and other abuses.

Mr Jürgen Rüttgers, minister for science and education, said the legislation would become a "pacemaker" in the future world of multimedia, wbere moving images, data traffic and sound will converge. The proposals would encourage investment in multimedia wbile also protecting consumers and their data.

The draft multimedia law attempts to clear up legal confusion which could have deterred companies from offering new products and services, particularly after liberalisation of the country's telecommunications system from January 1 1998.

A central plank of the proposals – which have to be approved by parliament – make clear that multimedia should be covered by federal legislation rather than at Länder (state) level. This abould avoid multimedia companies which offer services such as telephone shopping or access to information having to deal with a welter of complex local regulations.

> An international standard on encryption has yet to be established, as there is still no consensus on just how secure such systems should be

Under German law the Länder are responsible for regulating broadcasting. Given the televisual nature of much of what is known as multimedia, some Länder argued that their anthority should be extended to it. This was rejected hy botb Bonn and nearly all commercial operators, which feared excessive bureaucracy.

The Länder will retain responsibility for conventional broadcasting and discussions between the federal and state governments are expected to continue over "grey areas" where the border between conventional and new services is unclear.

A further key element of the proposed law is the extension into cyberspace of laws governing the printing and distribution of proscribed matter, such as child pornograpby or neo-Nazi propaganda. Consumer protection legislation would also extend to multimedia.

Mr Rüttgers has in the past proposed an international agreement on tracking down and prosecuting offenders, given that such material can originate from around the globe.

Also unresolved are issues concerning encryption of data for security purposes. An international standard on encryption has yet to be established, as there is still no consensus on just how secure such systems should be.

Law enforcement egencies have argued that almost totally secure systems would hamper criminal investigations. Others argue that data protection, necessary for both secure commerce and personal civil rights, can only be guaranteed by the maximum level of encryption.

Swiss urged to make amends for Nazi ties

Switzerland yesterday came under renewed pressure to make amends for the country's financial dealings with Nazi Germany, as the head of the World Jewish Congress issued an appeal for immediate compensation for the relatives of Jews who sent assets to Switzerland during the Holocaust, Patti Waldmeir reports from Washington.

Mr Edgar Bronfman, one of the most prominent spokesman for world Jewry, told a House committee investigating the "Nazi gold" issue that a full investigation would take too long, and many Holocaust victims would die before it was completed.

"The time has come for the competent authorities to make a good-faith financial gesture – ooe that does not prejudice the outcome of any final settlement – so that those who have suffered so much may yet see in their lifetime some measure of justice done," he said.

A Swiss government spokesman told the House banking committee his government would press ahead swiftly with a probe of Switzerland's wartime role, completing it within two to three years. But Jewish groups fear this could stretch to five years.

The Swiss parliament yesterday gave final approval to a law which will lift bank secrecy laws on the relevant accounts, allowing the Swiss investigation to begin in January. The Swiss government wants to await the result of that probe before deciding on payments to survivors.

Jewish land claim in German court

By Frederick Stüdemann in Berlin

A Jewish family who claim they were forced by the Nazis to sell their land near Berlin will today seek to reassert their ownership when a court considers one of the largest restitution cases in eastern Germany.

At issue today are 11 properties in Teltow, a town on the southern fringes of Berlin, part of an 84-hectare site which once belonged to two businessmen, Mr Max and Mr Albert Sabersky.

The decislon on the properties is seen as a test case for the much larger site which now makes up the leafy Seehof district of Teltow of 530 bouses: the wbole site has a market value of over $100m.

The prospect of a wbole suburban district changing hands is remarkable, even by the standards of the restitution process in eastern Germany which has seen countless properties returned to former owners.

In extreme cases, such as Teltow, whole villages or districts bave been subject to ownership disputes. in Seebof the Sabersky claim bas created anger and uncertainty among bomeowners who are unable to use "their" property as collateral.

Seehof was created in the 1930s wben farmland the Sabersky bothers bought in 1878 was divided into plots and sold off.

Today the bouses are largely privately owned, many by descendants of people who bought in the 1930s.

The heirs of the Sabersky hrothers, led by Mr Peter Sonnenthal, a US lawyer, claim that the family was pressured into selling below market value and never received the full sum of money from the sales, which were handled by an estate agent wbo was a member of the Nazi party and received an unusually high commission.

Under German law, property owned by Jews which was expropriated by the Nazis or unfairly sold betweeo 1933 and 1945 is subject to restitution.

The heirs bave said that if their claim is recognised they will not force anyone out of their bomes. in August they also made a settlement offer to inhabitants to "buy back" the claims for a relatively small amount. Lawyers acting for the heirs say 60 people have so far accepted the offer and 90 more bave expressed interest.

The family's claim is opposed by the Office for the Settlement of Property Questions (Arov), a local government agency set up to deal with restitution cases, whicb says that the Sabersky family bad planned to divide up the Seehof site long before the Nazis came to power in 1933.

Arov also believes a fair price was paid for the plots.

This year Arov rejected the Sabersky claim to Seehof, though it granted restitution for a number of properties which had been directly occupied by tbe family and whicb the agency acknowledged bad been sold under duress.

Wrangle with Beijing over costs delays plan for Western Corridor Railway link into China

Hong Kong scales down rail ambitions

By Louise Lucas in Hong Kong

The Hong Kong government yesterday scaled down its plana for the ambitious Western Corridor Railway linking the territory's Kowloon peninsula with China, after months of baggling with Beijing over the project's cost.

Beijing, whose approval for the project is required as its construction straddles the handover next July when Hong Kong reverts to Chinese sovereignty, said the estimated cost at HK$75bn (US$9.7bn) was too expensive. Chinese officials were further irked by Hong Kong's failure to keep them briefed on contractors and developments.

Yesterday Mr Gordon Siu, the territory'a secretary for transport, said that while the passenger line from Kowloon to the more remote north-west New Territories would go ahead, the cross-border railway would be delayed. This would shave costs by a third.

"We are still some way from reaching any definitive conclusions on the development and timing of the new rail border crossing," he said.

Thos the government-owned Kowloon-Canton Railway Corp (KCRC) which is carrying oot the project will face costs of HK$50bn rather than the HK$75bn estimate. Around balf of that will come from government funds.

Under the revised blueprint, construction of the railway extension will begin next summer, and the first phase could be completed by 2002.

Originally, the three-section project was to have been completed by 2001.

Hong Kong has argued the train link is vital, and that the total cost rose as the project was expanded. In July Mr Siu underlined the government's commitment to the scheme in the Legislative Council, stressing it was "a priority project".

The railway link is not the first big infrastructure project in Hong Kong to suffer delays brought about by rows between the two governments. The territory'a naw airport at Chek Lap Kok, now scheduled to open in 1998, was hit by a row over financing, and a deal on the extension of the port was only signed earlier this year after protracted wrangling over the make-up of the consortium that won the bid to build and develop it.

The Western Corridor Railway was first mooted in 1994. In January last year the KCRC was asked to submit a proposal for the construction and operation of the railway. The KCRC's feasibility study was handed over in November last year.

Separately, the KCRC yesterday announced that Mr Yueng Kai-yin, a former treasury minister and latterly director of Sino Land, a property developer, would succeed Mr Kevin Hyde as chairman.

Uncharted territory, Page 13

Hashimoto set to ride out wave of scandals

William Dawkins on the cracks in Japan's iron triangle of bureaucracy, politics and business

It is a sign of how the old ties that bind Japan's cosy power structure are loosening that hardly a day goes by in Tokyo without a top bureaucrat or politician being embarrassed by claims of financial impropriety.

Routine recent fare on television news includes policemen marching into ministries to carry out crates of incriminating papers, bureaucrats being driven off to prison and pink-faced politicians bowing in atonement for being found out.

Collusion and kickbacks in the iron triangle of business, bureaucracy and politics were, within limits, tolerated for much of the post-war era. They have suddenly become less acceptable, though only a bit. This is no crisis and does not look like bringing the string of resignations brought about by accusations of sleaze in the UK government.

Surprisingly, Mr Ryutaro Hashimoto's minority administration seems little harmed by charges of venality among senior members of the ruling Liberal Democratic party (LDP).

There have, admittedly, been signs of strain. Mr Shinji Sato, minister for international trade and industry, was unable to attend the World Trade Organisation ministerial summit in Singapore because he had to face parliamentary questions over corruption among Miti officials.

Even so, foreign observers could be forgiven for surprise that the government is so little affected, given the sheer weight of evidence. A shortened list includes:

● Mr Hashimoto admitted on Tuesday be had received Y2m ($17,600) of – legal – political donations from a hospital linen leasing group after it had got an official warning against violating anti-monopoly laws. He is considering returning it.

● A former top health ministry official was arrested last week and charged with accepting Y60m in bribes from a businessmen seeking state subsidies to run old people's homes.

● Miti last week punished six top officials for accepting lavish hospitality from an oil broker, recently arrested for evading tax on commission from questionable deals. Senior members of both the LDP and opposition New Frontier party (NFP) admit taking donations from lobby groups run by the same broker.

● Police last month raided the offices of an organisation, Orange Co-operative, suspected of falsely posing as a savings bank. Orange had donated Y30m to former prime minister Mr Morihiro Hosokawa for his election campaign in October. He promptly returned the cash.

Judging by Japanese media coverage of these events, the public is disappointed bnt not shocked. Allegations against officials, once held to be above suspicion, are new, but again not surprising. "This is business as usoal. The public has always assumed that this kind of thing has been going on," explains Mr Dan Harada, a political consultant.

If this is routine behaviour, why are the police only now choosing to act against it? One factor, political observers speculate, is that public prosecutors discreetly held off in the run-up to October's general election.

Another factor is that old alliances have turned sour. "Some of tha bureaucrats have probably been corrupt for decades. They became greedier in the late 1980s bubble economy, and may have overstepped themselves. Since then the iron triangle has started to disintegrate," says Mr John Neuffer, political analyst at Mitsui Marine Research Institute, a private sector think tank.

One crack in that triangle is Mr Hashimoto's election commitment to trim the size and power of the bureaucracy. That pledge is especially significant coming from Mr Hashimoto of all people, a former finance minister, celebrated in Kasumigaseki – Japan's Whitehall – for his skill at working with bureaucrats.

Not surprisingly, Mr Hashimoto's administrative reform plans have aroused hostility from those who risk losing status, or even a job. In Japan, more than in most places, a successful leader must have no enemies, as an adviser to Mr Kakuei Tanaka, a former prime minister, once wrote.

That invites the question of whether Mr Hashimoto or his government could be unsettled or even toppled by scandal. For now, he is secure. He has won praise, and deflected attention from politicians, by calling for a coda of conduct for bureaucrats. And even if Mr Hashimoto were to be implicated, there is no clear alternative leader.

Second, the opposition NFP has neither the stomach nor power to challenge the government. Too many of its own top people – mostly former LDP men – are caught up in the same corruption cases. Worse, the NFP is about to split, with the defection of Mr Tsutomu Hata, another former prime minister, and his supporters.

The main risk from Japan's rash of scandals, warns Mr Nauffer, is that the Hashimoto team might get side-tracked from urgent matters such as economic deregulation. In the long run, the controversy helps those wishing to make government more transparent and efficient. But in the short term Mr Hashimoto and others with an interest in a more open Japanese economy must be cursing the distraction.

After recent raids and revelations Hashimoto (left) and Sato hope to ride out the storm

ASIA-PACIFIC NEWS DIGEST

Weak yen lifts Japan exports

The decline in Japan's current account surplus continued to bottom out in October, as a weak yen helped to lift exports of manufactured goods, according to official data yesterday.

The current account gap shrank 19.6 per cent to Y367.4bn ($3.25bn) in October compared with the same month last year, a bigger contraction than the market had expected, but significantly slower than September's 35.6 per cent decline, the finance ministry reported. It has now been on the decrease in almost every month since December 1994, broken only by one month's increase in August last year. But the October fall was the smallest in seven months, because of a sharp rise in car exports.

Within the October total, Japan's trade surplus in goods and services fell 11.6 per cent to Y41.2bn, the 23rd monthly decline in a row, but the smallest October surplus since the ministry started collecting trade figures in this form in 1985. The merchandise trade surplus fell by 11.7 per cent to Y699.1bn, while the deficit on services rose by 9.1 per cent to a record Y657.9bn, on a surge in tourism.

William Dawkins, Tokyo

Loan pledges for Philippines

World Bank donor-countries meeting in Tokyo yesterday pledged loans and grants of $2.9bn to the Philippines for 1997, a slight increase from $2.8bn last year.

Delegates to the 20th consultative group meeting, an annual forum of donors to the Philippines chaired by the World Bank, praised the country for its fifth successive year of rising economic growth. From 0.5 per cent in 1991, gross national product growth had risen to 7.1 per cent for the first three quarters of 1996. Mr Javad Shirazi, director of the World Bank, welcomed the Philippines' "robust growth and buoyant investor confidence".

Inflation had fallen from double-digit levels, foreign exchange reserves had improved significantly and exports for the year had outstripped the performance of wealthier east Asian economies.

Delegates called on the Philippine government to strengthen its resilience to external shocks, an implicit criticism of the Philippine's rising trade and current account deficits.

For the first six months, the Philippine central bank said the trade deficit rose year-on-year from $4.88bn to $7.13bn.

Justin Marozzi, Manila

Chavalit plans spending curb

Thailand's new prime minister, General Chavalit Yongchaiyudh, pledged yesterday to curb government spending and boost export revenues in an attempt to ease the country's current account deficit.

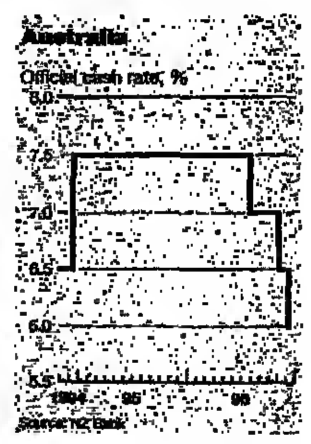
Presenting his government's policy platform to parliament Gen Chavalit said "unnecessary expenses and incompetent investments" would be targeted, staking his government's credibility on stabilising Thailand's slowing economy.

Thai central bank officials said last week they expected the current account deficit to reach 8.3 per cent of gross domestic product, up from an already high 8.1 per cent last year, mostly doe to slowing export growth.

Poor export performance has also hurt overall economic growth, which after a full decade of growth above 8 per cent annually is expected to be just above 6 per cent this year, a slowdown that has shaken financial markets and, combined with the current account deficit, put pressure on the currency.

Ted Bardacke, Bangkok

Australian dollar falls after interest rate cut



By Nikki Tait in Sydney

The Australian dollar fell fairly sharply yesterday on news of the Reserve Bank's reduction of the cash rate from 6.5 per cent to 6 per cent. The currency fell by about one US cent, closing the day at around 79.15 US cents. Ten days ago it had reached a six-year peak at more than 83 US cents.

Financial markets were aurprised by the cut, the third this year. Although most analysts said the slowing rate of economic growth and low inflation data might offer scope for an easing of rates, few expected a move before 1997.

Bond pricea rallied, although they closed below the day's best. The yield on the benchmark 10-year bond ended at 7.18 per cent, down from Tuesday's close of 7.35 per cent. Shares ended little changed, with the all-ordinaries index 2.5 points lower at 2,359.3.

The Reserve Bank said the easing was a response to the improved inflation outlook. It said the "underlying" inflation rate was expected to stay below 2.5 per cent for the rest of the 1996-97 financial year. It also noted tha recent strength of the dollar had been helpful in quelling inflationary pressures.

In Canberra, Mr Peter Costello, federal treasurer, suggested the August budget inflation forecasts for 1996-97, of 2.75 per cent, could be undershot. "We actually think there's a possibility of doing better," be said.

Meanwhile, Mr Costello yesterday introduced a "Charter of Budget Honesty" bill into parliament, which would require any government to release details of the country's budgetary and economic position at the start of each election campaign, as is the case in New Zealand.

● Parliament yesterday finally passed legislation which will allow the partial privatisation of Telstra, the government-owned telecommunications carrier, to go ahead. The federal government wants to sell one-third of tha telecoms group through a stock market flotation – a move which could raise around A$8bn in the biggest share offer in the country'a history.

Australia is also in the process of moving to a fully deregulated telecoms market by July next year and any sale of Telstra is likely to occur after this.

Currencies and money, Page 25; World stock markets, Page 36

Canberra acts on petrol prices

By Nikki Tait

Aostralia's conservative federal governmant announced yesterday it would seek undertakings from the major oil companies to provide "open access" to their terminals, as part of a plan to deregulate the country's petrol industry.

It said that, after industry consultations, it was satisfied that "promoting competition and removing unnecessary regulation in the petroleum products industry is the best way of achieving lower prices for consumers".

"Deregulation and structural change in the sector will proceed in an orderly manner over the next few years," it added.

Efforts would also be made over the next 12 months to negotiate a new enhanced "oilcoda" and code of conduct between oil companies, distribntors and retailers. The Canberra government said it was "disposed" towards repealing legislation that governs petrol franchising and retailing arrangements, and restricts the number of petrol stations big players can operate.

Meanwhile, petroleum products would be removed from price surveillance once the federal treasurer was sure of "pro-competitive" developments. The current regime caps petrol product prices and requires the four big suppliers to notify the Australian Competition and Consumer Commiasion (ACCC) if they want to increase them.

But the proposals wera criticised for being "too slow" by Ampol, the country's largest petrol distributor. Ampol broke ranks with Shell, BP and Mobil several months ago when it started publishing its wholesale petrol prices. It has also promised open access to its terminals once prices are deregulated.

The pressure for change follows an inquiry by the ACCC earlier this year. Part of its brief was to look into discrepancies between city and country petrol prices, which, it is claimed, handicap the farming industry.

The ACCC concluded that current price surveillance waa ineffective in restraining prices and that competition from independent fuel retailers was more likely to be an effective price dampner. At present, independents account for only about 5 per cent of the market. However, Woolworths, the country'a largest supermarket chain, has recently started selling petrol at one retail site, and is looking at introdncing petrol pumps at up to 200 stores.

India and Bangladesh reach water deal

By Kasra Naji in Dhaka and Mark Nicholson in New Delhi

India and Bangladesh last night reached agreement on abaring tha waters of the Ganges River, settling a dispute which has been the chief bilateral irritant between the two neighbours for more than 20 years.

"I wish to place on record my profound satisfaction at the agreement we have just reached on tha sharing of the Ganga waters," Indian Prime Minister H. D. Deve Gowda said after talks in Delhi with Sheikh Hasina, Bangladesh's prime minister.

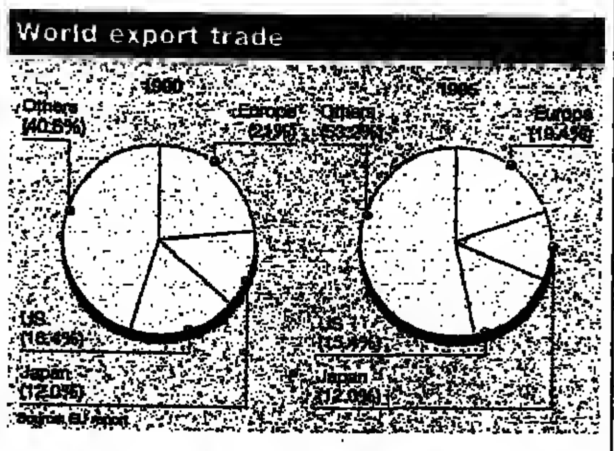
The agreement, to be signed today, represents a significant foreign policy success for Sheikh Hasina's 10-month-old Awami League government, and is the first example of the Indian United Front (UF) government's policy of greater "generosity" towards its smaller neighbours. Though no details of the pact were immediately available, Bangladesb was hoping to increase its share of Ganges water during the "lean" post-monsoon season from late December to June. Dhaka claims the diversion of the water has hurt the livelihoods of 30m farmers.

Bangladesh has been in dispute with India over its share of Ganges water – which flows through northern India before emptying into the Bay of Bengal in Bangladesh – since the conatruction of the Farakka dam in 1975, with the aim of diverting water to the Indian state of West Bengal, partly to "flush" the state's silted port at Calcutta.

Dhaka has alleged that India opens the barrage at Farakka during the wet monsoon months of June-September, flooding Bangladeshi land downstream. It has also argued that India then staunches the flow during the dry season. This week's visit by Shiekh Hasina follows a visit to Dhaka by Mr Jyoti Basu, West Bengal's chief minister.

EU urged to trade more in east Asia

By Neil Buckley in Brussels



Europe should adopt more adventurous trade and investment policies in the fast-growing markets of east Asia to stem a decline in its share of world exports, according to a report of European Union experts on enhancing competitiveness.

The EU should also avoid protectionism in fsvour of encouraging multilateral opening of trade, and should enhance the effectiveness of the World Trade Organisation – including making the entry of China a priority.

The last of four studies by tbe EU's competitiveness advisory group, appointed by Mr Jacques Santer, European Commission president, to examine the EU's competitive position, warns that Europe has been "performing below its full potential" in global trade.

Wbile the first three reports looked mainly at internal policies, the final report, to be presented by Mr Santer to tomorrow's Dublin summit of EU leaders, focuses on the Union's international trade and investment record.

It warns Europe's position in recent years has deteriorated, with merchandisa trade with non-EU countries falling from 22.6 per cent of EU gross national product in 1983 to 18.6 per cent a decade later.

Over the past five years the EU's share of total world exports has fallen by a bigger proportion than that of the US, while Japan has held its share. The total Asian share of world trade, meanwhile, has increased from 12.8 per cent to 18.9 per cent.

One reason for tha poor EU performance is that the proportion of its exports going to the fastest-expanding markets, in south-east Asia, was only 11.9 per cent, against 14.4 per cent for the US and 29.6 per cent for Japan. The EU still relies on historical markets such as Africa, central and eastern Europe, and the Middle East, which are growing more slowly.

While Japan and the US have geographical advantages in investing in Asia, Mr Percy Barnevik, chairman of Swedish engineering group ABB who chaired the group, said attitudes were also important.

"Asia is still seen as an axotic, foreign location by many companies," he said. "This is not a government problem. We have to get out there, get our students there, learn the languages."

Other problems inclnded reluctance by the EU to invest directly in south-east Asia. EU direct investment in the region was "negligible", while Japan's share of investment tbere jumped from 12 per cent in 1991 to 18.8 per cent in 1994.

EU countries, apart from the UK, specialise too much in medium or low technology, the report adds, reflecting a well-known failure to translate scientific research into applications.

Kepco wins power contest

By Justin Marozzi in Manila

The state-owned Philippine National Power Corporation, Napocor, has selected Korea Electric Power Company as the preferred bidder for the construction of the country's first 1,200MW natural gas power plant.

Kepco beat five other offers with its bid of $1.46bn based on net present value and a partial government guarantee. The project is the first build-operate-transfer (BOT) project to be swarded with a partial rather than a full government guarantee. The partial guarantee covers only specific Napocor obligations and, unlike a full guarantee which lasts for the duration of the project, is valid until the country reaches investment grade for two successive years.

The 20-year BOT project st Ilijan is due to be completed by 2002 and is to be supplied from a natural gas field discovered by Shell Exploration and Occidental Petroleum in north-west Palawan. The government has promised a market of 3,000MW before these companies develop the field.

The bid result disappointed Cepa (Consolidated Electric Power Asia), tha power subsidiary of Hopewell Holdings of Hong Kong which finisbed sligbtly behind Kepco with a bid of $1.49bn. It won the original bid for the power plant in June 1995 bnt was subsequently disqualified for including technology developed by the US company Westinghouse, then on a blacklist for alleged involvement in the payment of kickbacks to win a previous contract.

Mr Giovanni de la Rosa, analyst at ING Barings, said the Kepco deal was Napocor's biggest to date with an independent power producer and it was likely to proceed. "If the govsrnment backtracked on this one it would damage its reputation in a big way," he said.

Unicef urges multinationals to adopt child labour code

By Mark Suzman, Social Affairs Correspondent

Tha United Nations Children's Fund has called on international companies to adopt more widely codes of conduct that prohibit the use of child labour by their suppliers in developing countries.

The move is one of a series of measures to eliminate child labour proposed in a report on the state of ths world's children, publisbed yesterday to mark tbe agency'a 50th anniversary.

The study says that as many as 73m children aged betwean 10 and 14 are employed and nearly 400m are engaged in some form of work.

It saya governments sbould bonour the 1990 Convention on the Rights of the Child by extending legal protection for children, providing more and better education and improving data collection and monitoring of child labour.

The study acknowiedges that some work – such as water-carrying – is the result of poverty rather than exploitstion, but says dangerous work involving cbildren sbould be eliminated directly.

"Hazardous and exploitative forms of child labour, including bondad labour, commercial sexual exploitation and work that hampers the child's physical, social, cognitive, emotional or moral development must not be tolerated and govarnmants must take immediate steps to end them," it says.

Tbe report applauds campaigns by labour unions, consumer organisations and other groups, particularly in the US, which have forced many international companies to put pressure on suppliers who use child labour.

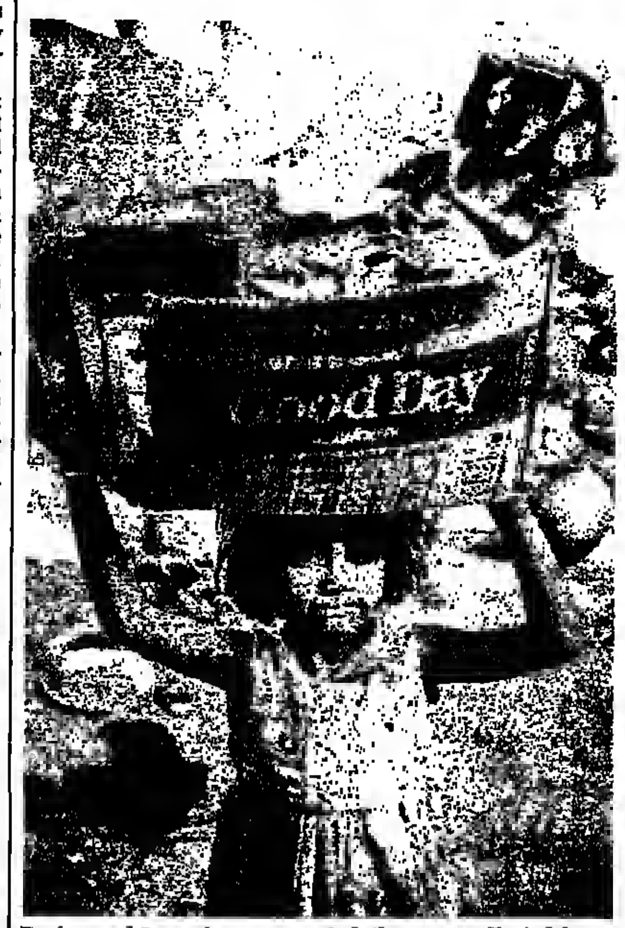
"Procurement policies must be developed to take into account tbe best interests of the cbild and include measures to protect those interests," it says. "Employers in the formal aector hava successful models on which to base their efforts to eliminate child labour and shift from being a source of tbe problem to becoming part of the solution."

The report also says that anti-child labour campaigns should be expanded to target indigenous companies in many developing countries as well as multinationals.

"The challenge now is to extend the notion of corporate responsibility for cbild labour – and the campaigning that can bring it about – to national companies," it says.

Last month, the World Federation of the Sporting Goods Industry drew up a code of practice aimed at eradicating child labour in the industry and several large retail groups have already done the same.

The State of the World's Children 1997, Oxford University Press, Walton St, Oxford OX2 6DP, UK, £6.95



Pooja, aged 5, carries paper and cloth scraps collected from the streets of Calcutta for recycling. She will earn 30 US cents Reuter

Indian court orders action

By Mark Nicholson in New Delhi

India's supreme court has directed the government to sct against businesses illegally employing an estimated 6m children in "hazardous" industries and ordered law-breaking employers to finance a special fund to compensate and rehabilitate child workers.

The court ruled tbat offending employers sbould pay fines into the fund of Rs25,000 ($714) for every child employed, and an additional Rs20,000 in individual compensation for breach of India's Child Labour Act of 1986, a much-flouted law which bans child labour in 16 industries.

The Indian government has not reacted to the ruling.

Unicef believes India has the largest illegal under-age workforce in the world, with some estimates putting the number of under 14-year-olds at work in factories and workshops as high as 100m.

The supreme court was prompted by a public interest petition by Mr M. Mehta, an activist lawyer.

Mr Kailash Satyarthi, head of the South Asian Coalition on Child Servitude, an umbrella for 250 non-government organisations in the region, said the ruling would in theory affect at least 6m children working in industries including diamond polishing, match and firework making, slate, glass, carpet and other trades.

While welcoming the court's ruling as "historic", Mr Satyarthi said he doubted it would be implemented. The court had established no mechanism other than current government structures to identify illegal child employers, he added.

"The law will still be in the hands of the government's labour inspectors, who are some of the most corrupt officials in India," he said. "The court should go further and create an independent commission to monitor implementation of the judgment."

Prospects improve for WTO telecoms accord

By Frances Williams and Guy de Jonquières in Singapore

SINGAPORE
December 1996

The prospects of a World Trade Organisation deal to liberalise global telecommunications rose yesterday when a cluster of important countries said they would submit new or improved offers to open their markets to foreign competition.

Trade officisls attending the WTO ministerial meeting in Singapore were particularly encouraged by a statement from Indonesia, which has been reluctant until now to enter the negotiations, that it would "seriously consider" submitting an offer.

The participation of Indonesia, along with that of Malaysia, is seen as essential because it is potentially one of Asia's biggest telecoms markets. The US bas said these two countries ara needed to achieve the "critical mass" for a snccessful deal by the deadline of February 15. "If Indonesia comes in, I think Malaysia will come in," one trade official said.

At an informal meeting of ministers chaired by Canada, new offers were pledged by South Africa, Egypt, Barbados and Jamaica. These will be presented in January when telecoms negotiations resume in Geneva, together with improved offers from Canada, Singapore and South Korea.

South Korea has apparently indicated it may raise limits on foreign ownership of domestic telecoms companies (excepting Korea Telecom) from 33 per cent to 49 per cent after 1998, and will permit 100 per cent foreign ownership of voice resale companies after 1999.

Trade officials also expect Canada to raise foreign ownership limits from the present 20 per cent, while Singapore will incorporate its recent decision to remove Singapore Telecom's monopoly from the year 2000.

However, Japan earlier dampened expectations that it would increase the 20 per cent limit on foreign ownership of the two main carriers, NTT and KDD. Japan had done almost all it could last April when the talks were originally due to end, and "there is not much left," a government spokesman said.

Meanwhile, the US and EU were still trying to finalise details of a proposed agreement to free trade in information technology products, which Japan and Canada are also expected to back.

Hopes of clinching the deal will depend on the strength of participation by other WTO members, about 20 of which have expressed interest. Although not all are expected to sign up this week, they are under strong US and EU pressure to commit themselves in principle before their ministers leave Singapore.

Italians to rebuild railway

By John Simkins in Milan

Tor di Valle, a Rome-based construction company, has agreed a L5,000bn ($3.3bn) barter deal to rebuild more than 1,300km of railway in Angola damaged in the country's civil war. In exchange the company has a 14-year licence to exploit 35,000 hectares of eucalyptus along the railway line.

The railway runs from Lobito port to the border with Zaire and forms part of the so-called Beira corridor line that runs from the Atlantic to the Indian Ocean through Angola, Zaire, Zambia and Zimbabwe to the port of Beira in Mozambique.

The Italian foreign ministry said the contract was an important element of renewed Italian activity in the region.

Tor di Valla will supply 100,000 tonnes of rail and rebuild 45 metal bridges for the line, much of which was built at the beginning of the century. A total of 14.5m tonnes of timber will be exported to Italy for pulp or the furniture industry.

It's a funny old World Trade Organisation

Guy de Jonquières reflects on the interminable haggling at the Singapore ministerial meeting

The tropical city-state of Singapore, with fewer than 3m mostly ethnic Chinese inhabitants, boasts the world's biggest Father Christmas – complete with a dusting of snow on his beard. But as a surreal spectacle, it cannot compete with the World Trade Organisation's ministerial conference being held there this week.

Inside a gleaming conference centre, legions of trade ministers, diplomats and officials have been labouring to promote the liberalisation of global markets. To many observers – and some candid participants – the proceedings often seem more like bureaucratic play-acting.

For most delegates, the main event is the cut-and-thrust over what should appear in the ministers' final communiqué. Although the issue has already been debated to death in WTO preparatory meetings in Geneva, it has continued to keep committee rooms filled until late into the night.

Verbal battles have raged over the precise wording – and even the punctuation – of the statement. Diplomats have been passionately divided over such questions as whether it should contain a reference to "trade and competition policy" or to the altogether more suggestive "competition policy and trade".

Such disagreements are not settled lightly – and when they are, further heroic struggles await. For instance, is a subject sufficiently mature to be studied by a working party, or should it be remitted to a committee of experts? Or should WTO members agree, in a spirit of compromise, to set up an "experts group open to all members"?

Once delegates reach a consensus – the most precious word in the WTO vocabulary – they retire to bed pleased at a job well done. Quite why is not always clear to outsiders. For instance, the WTO's chief spokesman struggled this week to convey trade negotiators' sense of shared achievement at having ended a lengthy quarrel over textiles trade by reaffirming binding commitments made by ministers almost three years ago.

Some issues of real substance hang on this apparently interminable haggling. It will determine, for instance, whether the WTO concludes an agreement to free trade in information technology products, or sets out to formulate global rules in areas such as direct investment, competition policy and labour standards.

But much of the exercise consists of tactical manoeuvring and point-scoring by a tightly knit group of WTO diplomats, whose staple diet of committee meetings in Geneva has left them chronically addicted to negotiation.

For many, the thrill of the game is linkage – trading demands in one area for concessions in another. That logic apparently dictated the intransigent public stance struck by many developing countries on contentious issues such as investment and workers' rights. Such opposition may then be softened in exchange for movement on, say, agriculture or textiles.

But such tactics can verge on the frivolous. One WTO ambassador, who placed a reservation on one part of the communiqué, cheerfully admitted that his government did not object to the text in question. He just thought it might be handy to have a bargaining chip up his sleeve.

The most striking fact about machinations over the communiqué is that much of its contents will only have a slender relationship to the WTO's future condnct. Though intended to set the broad agenda for the next few years, the communiqué will bind members to few specific commitments and at least some of these are likely to be open to differing interpretations.

"Whatever the communiqué says, it will have been largely forgotten by January, and in five years' time, nobody will be able to recall what all these arguments were about," says one veteran trade negotiator. "It is hard to explain to the world at large why grown-ups insist on behaving in this fashion."

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for December 15 1996 to January 14 1997 (November 15 1996 to December 14 1996 in brackets).

D-Mark	5.92 (6.10)
Ecu	5.71 (5.80)
French franc	5.96 (6.10)
Guilder	
up to 5 years	5.38 (5.91)
5 to 8.5 years	6.22 (6.74)
more than 8.5 years	6.76 (7.19)
Italian lira	6.88 (7.40)
Yen	2.50(2.50)
Peseta	7.63 (8.02)
Sterling	8.25 (8.02)
Swiss franc	4.76 (4.82)
US dollar for credits	
up to 5 years	6.82 (7.06)
5 to 8.5 years	6.97 (7.27)
more than 8.5 years	7.10 (7.42)

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.2 per cent is to be added to the credit rates when Ecoq at bid. Interest rates may not be fixed for more than 120 days.

UK in joint oil zone with Argentina

By Jimmy Burns in London and David Pilling in Buenos Aires

Britain and Argentina yesterday agreed a timetable for a joint oil licensing round in a "special co-operation zone" in disputed waters in the South Atlantic.

Under an agreement reached in London after two days' talks, a joint commission will invite bids from oil companies before the end of next year for an area south-west of the Falkland Islands. The special zone covers about 18,000 sq km, straddling Argentine territorial waters and an area involving disputed sovereignty claims to the Falklands.

Both countries have agreed not to allow the sovereignty issue to get in the way of the joint commercial exploitation of an area from which Argentina in particular, hopes to take maximum advantage.

Argentina suffered some diplomatic embarrassment when it was largely excluded from an earlier licensing round organised by the Falklands Islands.

Two bids from a consortium of YPF, the country's privatised oil and gas group, and British Gas were rejected on commercial grounds after the Argentine government had dropped threats to take legal action against companies participating in the round.

Mr Alberto Daverede, head of the Argentine delegation on the joint commission, said he hoped the agreement would secure a significant role for Argentine companies.

"We also hope provision of onshore facilities required for exploitation in the area will help development of Patagonia," said Mr Daverede, a junior foreign affairs minister.

YPF is thought to be interested in bidding for blocs in the co-operation zone.

The bulk of future exploration in the co-operation area is likely to involve joint ventures, with London and Buenos Aires sharing the revenues, although the precise details on issues such as taxation have yet to be ironed out.

The government of President Carlos Menem is anxious to be seen domestically to be making progress on the oil issue, in the absence of any progress towards its ultimate aim of bringing the Falklands under the Argentine flag.

The UK's Foreign Office stressed yesterday that the agreement on oil "in no way impinges on the sovereignty issue."

UK officials concede privately that further substantial moves in relations with Argentina will be limited in the run-up to the British general election.

The round will be preceded in February by a further seismic study. Earlier data is understood to be in the possession of the Argentine government and a number of top oil companies, and is understood to confirm the potential for oil.

Energy prices higher in US

By Gerard Baker in Washington

A leap in energy costs pushed US wholesale prices sharply higher in November, but there was little sign of accelerating inflation in core producer prices, the Labor Department reported yesterday.

Overall producer prices rose by 0.4 per cent from a month earlier for the second consecutive month. Excluding the volatile energy component, however, which rose by 2.3 per cent last month, the producer price index increased by just 0.1 per cent. Excluding food and energy the rise in the core figure was also 0.1 per cent.

Nothing in the figures suggested the Federal Reserve needs to raise interest rates to head off incipient inflation when its policy-making Open Market Committee meets next week.

In the year to November prices at the wholesale level rose by 3.0 per cent, while the core index increased by just 0.6 per cent over the same period. There is little prospect of an acceleration in the rate in the immediate future either, as wage pressures remain weak in spite of tight labour markets, and raw materials costs are flat.

The jump in fuel costs was caused mainly by a 2.8 per cent increase in petrol prices and a 3.8 per cent rise in natural gas prices. Food costs, which had risen by 0.8 per cent in October, declined by 0.1 per cent last month.

At the intermediate level producer prices rose by 0.2 per cent in November as construction and manufacturing materials' costs turned higher. Crude producer prices rose by 1.8 per cent, following a a 0.6 per cent fall in October. The increases in both indices were offset by flat prices in the previous month. Excluding food and energy, prices at the intermediate and crude level have been falling over the past year.

Clinton draws blueprint for second term

By Jurek Martin in Washington

President Bill Clinton yesterday laid out a blueprint for action during his second term in office, calling for further efforts to balance the US budget and urging all parts of society "to spend the next 50 months preparing America for the next 50 years."

He said "the vital centre" – no longer "a lukewarm midpoint" between liberals and conservatives – should cross party and social divisions and come together to make the most of "a rare and fleeting moment of opportunity".

Mr Clinton's speech, to the centrist Democratic Leadership Council, was his first formal address since his re-election last month. Aides had said it would reflect much of the thinking he expected to place before the country in his State of the Union address.

The president identified eight areas worthy of maximum effort in the next four years. At the top of his list was balancing the federal budget in ways which still allowed for a "step-by-step" expansion of healthcare as well as reform of the two big government health insurance programmes.

But he reserved some of his strongest arguments for the imperative of making the welfare reform legislation, passed last summer, work in practice. He appealed to US businesses, big and small, to play their part in moving people "from a culture of isolated dependence into the mainstream of economic life".

Mr Clinton cited innovative welfare reform programmes around the country which offered real hope. In Kansas City, for example, companies recruiting from the welfare rolls were given individual welfare cheques as a training subsidy. But the involvement of the private sector, he said, had to be increased.

His other six areas for improvement included education, crime, the family, campaign finance, science and technology and building new "structures" for international peace and security, including an expanded Nato and a "strong Nato-Russian partnership".

"Our agenda," Mr Clinton said, "is not liberal or conservative – it's both and it's different." He quoted President Abraham Lincoln's abjuration "to think anew and act anew".

Many of his remarks were broadly similar to themes taken up during a re-election campaign in which he was criticised by Republicans for stealing their ideas. Liberal Democrats, not strongly represented in his audience yesterday, have also expressed reservations that he was abandoning long-standing party principles. The president argued the election had produced "a new landscape".

But, he said, "the centre can hold, has held and the American people are demanding that it do so".

● The Republican party will enjoy an effective majority of 19 seats in the new House of Representatives, following the results of three special elections in Texas on Tuesday. Democrats won two of them, gaining a seat. The House next year will comprise 227 Republicans, 207 Democrats and one independent, Congressman Bernie Sanders of Vermont, the nominal socialist who normally votes with Democrats.

The most noteworthy defeat was that of Congressman Steve Stockman. A strong opponent of gun control, he attracted particular attention for comments that appeared to support the cause of rightwing militia groups associated with several acts of domestic terror.

Ultra-conservative Republicans indirectly contributed to the re-election of Democratic Congressman Ken Bentsen, nephew of Mr Lloyd Bentsen, the former senator and treasury secretary. They refused to support his Republican opponent, Ms Dolly Madison McKenna, because of her "pro-choice" abortion views.

The third run-off, between two Republicans, saw a win for Mr Kevin Brady over a candidate backed by the religious right. The Texas House delegation therefore comprises 17 Democrats and 13 Republicans.

Clinton: balancing federal budget is top priority Reuter

Top World Bank post for Clinton aide

By Gerard Baker in Washington

Mr Joseph Stiglitz, the chairman of President Bill Clinton's Council of Economic Advisers, is to join the World Bank as chief economist, it was announced yesterday. Mr Stiglitz, 53, will replace Mr Michael Bruno, a former governor of the central bank of Israel, as senior vice president of the bank in February.

His move leaves another gap in the president's core group of economic policy makers and advisers. Mr Clinton is expected to announce the leading members of the new team in the next few days, including Mr Stiglitz's successor, and replacements for Ms Laura d'Andrea Tyson, head of the National Economic Council, Mr Robert Reich, labor secretary and Mr Mickey Kantor, commerce secretary, all of whom are leaving government.

Mr Stiglitz was regarded as an effective, if somewhat low-profile member of the first Clinton administration's economics team. He served on the CEA from 1993, becoming chairman last year when Ms Tyson left to join the National Economic Council.

A former economics professor at Stanford University, he was an important intellectual contributor to the development of so-called New Democratic economic policies, with which President Clinton has been closely identified, essentially centrist economic and social ideas that helped move the party away from its more liberal "big government" ideology of the past.

In his two years as chairman of the CEA, Mr Stiglitz shifted the focus of the council from the provision of mainly macro-economic policy advice towards contributions on practical micro-economic questions. The council played an important role in developing administration policy on telecommunications deregulation, the simplification of pensions and various aspects of trade policy.

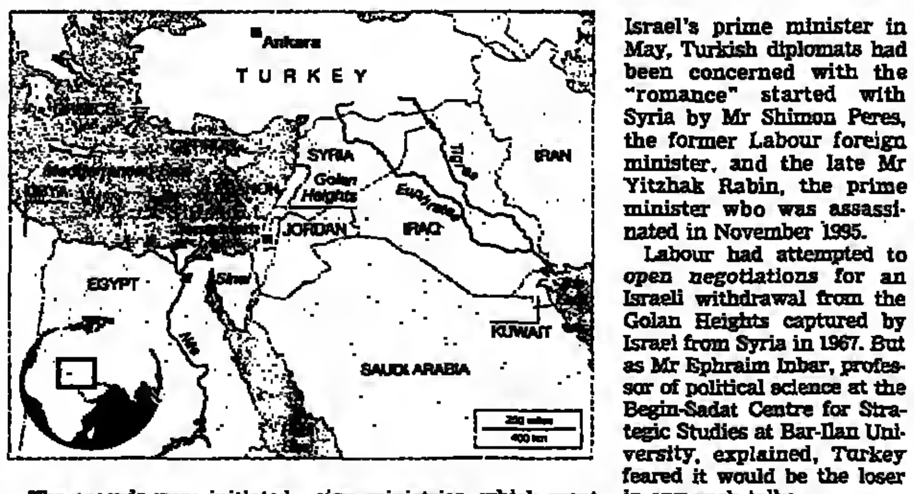
Since the appointment of Mr James Wolfensohn as its president last year, the World Bank has undergone significant reform in its bureaucratic culture in an attempt to make it a more effective channel of resources for less developed countries. "I hope my experience in tackling US micro-economic problems will be useful in dealing with the development needs of poorer countries," Mr Stiglitz said.

He has previous experience of development economics, having worked in academic posts in India and Africa in the 1960s.

Among the candidates to replace Mr Stiglitz are Ms Alicia Munnell, a member of the CEA and Mr Alan Blinder, former vice-chairman of the Federal Reserve.

Infidelity threat to Israel-Turkey 'romance'

Judy Dempsey on the future of trade and defence accords in an unpredictable Middle East



Israeli pilots, restricted to exercises over the sea since Israel gave back the Sinai to Egypt after the peace treaty of 1979, are now practising over a vast terrain in Turkey as a result of a defence co-operation accord between the two countries.

The accord, signed last February and renewed last month for a further year, signalled Israel's long-term ambition to forge a balance of forces in the Middle East, first articulated by Mr David Ben Gurion, the founder of the state of Israel who sought an alliance of non-Arab Moslem minorities as a counterweight to the Arab world.

Much criticised by Arab countries as directed against them, the agreement involves sharing intelligence and training and jointly combating terrorism. A spin-off of the original accord was a $650m contract signed last Friday under which Israel will upgrade Turkey's 54 F-4 Phantom jet fighters. Both agreements follow closer contacts in trade and tourism culminating in a free trade agreement earlier this year. This opened up a route into central Asian markets for Israeli companies.

The accords were initiated when Israel had no peace agreement with Jordan and relations with its other neighbours were tense. Their future will depend on several factors, among which the peace process will play a pivotal role.

An important concern is the tensions within the new Islamic government in Turkey.

Mr Necmettin Erbakan, the prime minister, has recently started opening contacts with Iran and Libya in spite of opposition from his pro-western defence and foreign ministries, which want closer relations with Europe.

Then there is the possibility of a peace agreement between Israel and Syria.

"All these factors will have an impact on the accords," said Mr Martin Kramer, director of the Moshe Dayan Centre for Middle Eastern and African Studies in Tel Aviv, "particularly since Turkey has always worried about not being consulted about an agreement between Israel and Syria."

Before the election of Mr Benjamin Netanyahu as Israel's prime minister in May, Turkish diplomats had been concerned with the "romance" started with Syria by Mr Shimon Peres, the former Labour foreign minister, and the late Mr Yitzhak Rabin, the prime minister who was assassinated in November 1995.

Labour had attempted to open negotiations for an Israeli withdrawal from the Golan Heights captured by Israel from Syria in 1967. But as Mr Ephraim Inbar, professor of political science at the Begin-Sadat Centre for Strategic Studies at Bar-Ilan University, explained, Turkey feared it would be the loser in any such talks.

For example, one of the most divisive issues in the region is water. Israel would seek compensation for any water it would lose from returning the Golan Heights to Syria. One way would be for Syria to pass on to it quantities from the Euphrates river from which Turkey draws much of its water. Turkish diplomats were concerned that the US would put pressure on Ankara to allow Syria to do this.

They also distrusted any peace accord between Israel and Syria, believing it would leave Ankara vulnerable since any redeployed Syrian troops from Israel's borders would be based closer to Turkey.

"You can see why Turkey was relieved when Mr Netanyahu won," a senior Israeli official said. "It thought Israel's romance with Syria had come to an end." But another romance – and one to Turkey's liking – also faded as a result of Mr Netanayhu's elections: Israel's relations with the European Union.

As a result of the peace process, Mr Peres had gained considerable respect and support among EU countries. Through those improved relations, he helped persuade EU countries to extend a customs union agreement to Ankara earlier this year, in spite of Turkey's dismal human rights record.

"While Israeli pilots were obtaining intelligence of Turkey's neighbours during exercises over the country and the business community was using good economic and political ties with Turkey to leapfrog into central Asian markets, Turkey could use Israel's improved relations with the EU to its own advantage," said Mr Inbar.

Mr Netanyahu has not deviated from Labour's policies with Turkey, as the recent ratification and extension of the accords confirm. What has changed is the EU's – and Turkey's – perception of the peace process. The goodwill Labour built up among EU countries has faded as a result of the standstill in the peace process. Consequently, Israel's clout in helping Turkey realise some of its ambitions in Europe has weakened.

At the same time Turkish support for the defence accord could sour if relations between Israel and the Palestinians deteriorate, particularly since Turkey has long been a supporter of the Palestinians, and if Mr Erbakan's strident anti-EU foreign policy prevails over the pro-western Turkish establishment.

"Everything is so intertwined," the Israeli official said. "We are beginning to see how so much of the regional security and alliances have depended on the peace process and how much Israel will have to balance its interests in the region, especially if it starts negotiating again with Syria."

INTERNATIONAL NEWS DIGEST

Deadlock over new UN chief

The UN Security Council last night remained deadlocked over the selection of a new secretary-general after three more informal straw polls failed to remove French opposition to the front-running Mr Kofi Annan of Ghana. Mr Amara Essy, Ivory Coast foreign minister, the other leading candidate, again was denied the support of the necessary minimum of nine votes. He also encountered opposition by the US and Britain, which had veto power.

A senior US official said during the polling process that if the French continued to block Mr Annan, 57, who at one point received 12 affirmative votes, they risked denying the secretary generalship to an African.

● Ms Elizabeth Dowdeswell, Canadian head of the UN Environment Programme, who has been accused of poor management by some western members, will have her contract extended for only a year, it was announced last night. Mr Boutros Boutros Ghali, secretary-general, made the recommendation to the General Assembly after consulting UN regional groups. But his press secretary, Ms Sylvana Foa, said it had nothing to do with Ms Dowdeswell's performance. *Michael Littlejohns, New York*

Bonn puts off Unido decision

The German government yesterday put off until next summer a decision on whether to pull out of the United Nations Industrial Development Organisation, Unido, to allow time for consultations with the European Union and the Group of Seven.

The cabinet's decision papered over differences between Mr Carl-Dieter Spranger, the development aid minister, who had sought Germany's exit from Unido to save money, and Mr Klaus Kinkel, the foreign minister, who felt that pulling out could damage Germany's bid for a permanent seat in the UN Security Council.

Germany will consult its EU and G7 partners on how far Unido and other UN agencies have improved their efficiency since the 1995 Nova Scotia G7 summit launched an initiative to reform the UN. *Peter Norman, Bonn*

Tajik rebels seize gold mine

Opposition troops in Tajikistan have taken over a British-run gold mine, according to radio reports yesterday. The Voice of Free Tajikistan, which broadcasts from a rebel exile base in northern Afghanistan, reported that troops led by Mr Mirzo Ziyo, a warlord from nearby Tavirdara, had defeated government troops and captured the Darvaz gold mine in southern Tajikistan on Tuesday.

The mine, just north of the Afghan border in a region dominated by opposition armies, was run by a joint venture with Gold & Mineral Excavation, a private British company. *Sander Thoenes, Tashkent*

Kenyan justice 'manipulated'

The justice system in Kenya has become so weighted in favour of a powerful elite and so tilted against the innocent that ordinary Kenyans are increasingly resorting to mob justice to defend their rights, according to a report by the London-based human rights group African Rights. In the 257-page book entitled Shadow Justice, the organisation paints a bleak picture of the reality of justice in Kenya today.

It concludes that despite introducing multiparty democracy in 1992, the government of President Daniel Arap Moi has systematically manipulated the legal system to block real reform. *Michela Wrong, Nairobi*

Size of Rawlings victory surprises Ghana

By Antony Goldman in Accra

Mr Jerry Rawlings, the former air force pilot who seized power in Ghana 15 years ago, was yesterday declared the clear winner of Saturday's presidential and parliamentary election.

According to the National Electoral Commission, Mr Rawlings scored 57.2 per cent while his closest rival, Mr John Kufuor, trailed with 39.9 per cent. Mr Rawlings' National Democatic Congress performed even better, winning 130 of the National Assembly's 200 seats.

The results have confounded analysts and diplomats, who had predicted a much closer contest. "People judged the strength of the opposition from the size of some of their rallies in the big towns," said Mr Kofi Gogobi Quakyi, minister of information. "But we knew we were better organised across the country, so we were confident of this victory."

The opposition is more sceptical. Newspapers have reported irregularities and malpractice. Mr Peter Adjetey, chairman of the New Patriotic party, expressed suspicion about the scale of Mr Rawlings' victory.

"Some of these figures are simply astounding, especially from the north. And we have evidence of money being used in the final days of campaigning to influence opinion formers like chiefs."

International monitors passed the elections as free and fair. The 23-member Commonwealth team said: "This was a credible election which reflected the will of the people." With a turnout of more than 75 per cent of Ghana's 9m voters, the team added: "We were deeply impressed with, and wish to commend the strong commitment of the people of Ghana to the democratic process."

Mr Rawlings has thus far restricted his public comments to an appeal for national unity.

"We are one family, and we must forge ahead in unity, for there is more work to be done," he told a team of American election watchers. His ministers have gone further, already hinting at overtures to the opposition. "We know the results are an endorsement of the political and economic policies we have been pursuing," said Mr Quakyi. "But we will not ignore the minority view, and realise more must be done for people in the urban areas."

Rawlings: clear win for coup leader

While the government promises to continue to promote a free market economy and privatisation, greater efforts to tackle an inflation rate of about 40 per cent are likely to follow. "This eats into the cost of living for the common man," one official said. "And we must aim for single digit inflation to ease his plight."

For Mr Rawlings, victory marks the culmination of a political career which began almost 20 years ago, followed by a transformation, first to World Bank inspired policies of economic structural adjustment and then, in 1992, away from military rule to multi party politics.

Even his opponents acknowledge that democracy in Ghana now stands on a firmer footing than at any time since independence.

"We had an election and it was peaceful, which is some kind of progress," said one losing parliamentary candidate. "And I guess even I must be grateful for that."

HH President Sheikh Zayed bin Sultan Al-Nahyan

Architect of the UAE

25 years of service built upon honour, integrity and respect.

On December 2, 1971, the United Arab Emirates was established as a newly-formed federation of states under the prudent and benevolent guidance of His Highness the President Sheikh Zayed bin Sultan Al-Nahyan. It was the start of a challenging and exhilarating voyage of self-discovery and development for this fledgling nation.

During the last twenty-five years, fired by the imagination and vision of the Ruler, HH Sheikh Zayed, the UAE has become a key participant in the affairs of the GCC region and beyond. At the same time, the UAE's importance as a trading partner with both the industrialised and developing countries of the globe cannot be over-emphasised.

For each and every citizen it has been a momentous journey towards the creation of one of the most modern and progressive states in the region. It is difficult to believe that so much has been achieved in such a comparatively short time – and in the face of challenging conditions, both economic and political. HH Sheikh Zayed's firm but forgiving touch is evident in every aspect of the Emirates' development – from the soaring skyline and bustling commercial activity, the state-of-the-art communications systems and social welfare programmes, to the advanced industrial infrastructure and an education system fully attuned to the needs of future generations.

Furthermore, it is a testimony to the prudence and imagination of the Ruler that prosperity and stability have been achieved without sacrificing traditional values and a rich cultural heritage.

Firm Foundations for Nationhood

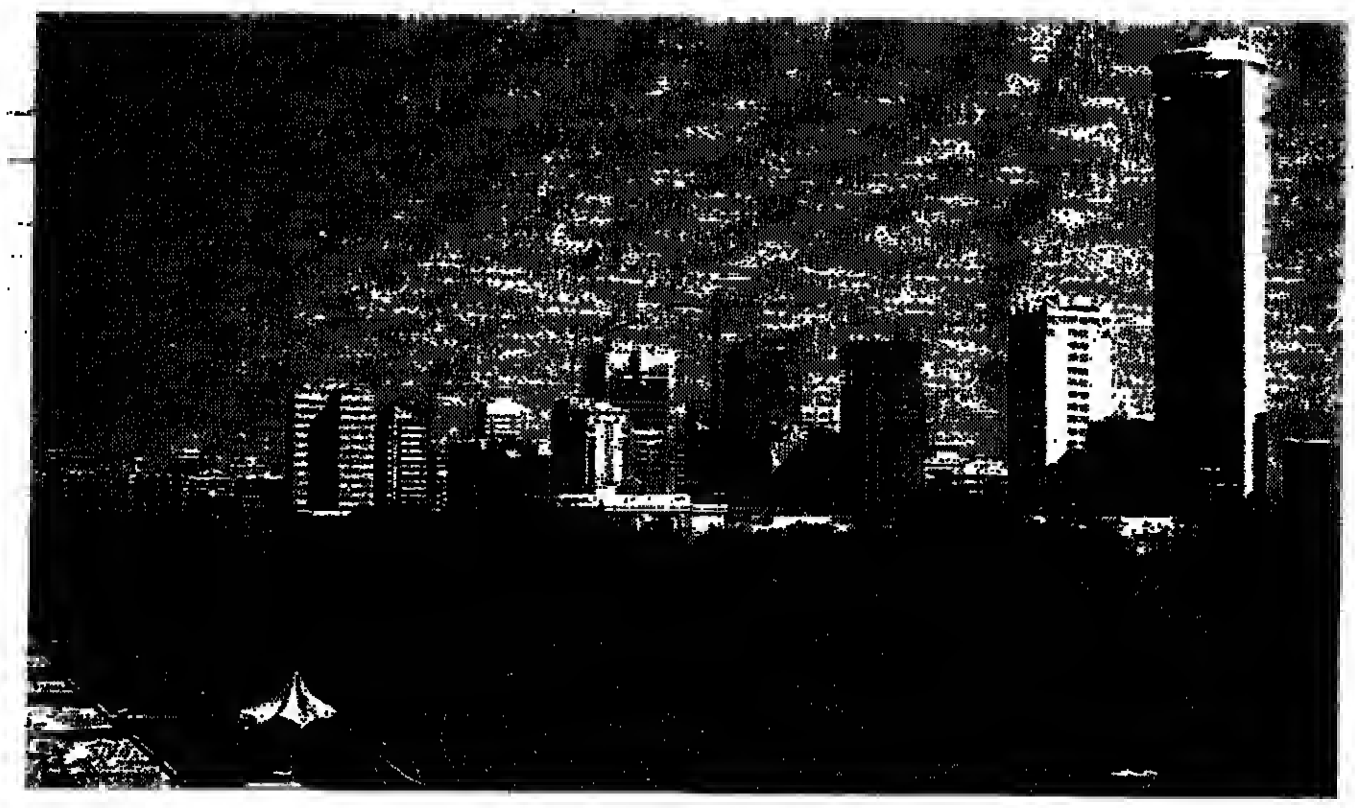
Born in the oasis settlement of Buraimi, HH Sheikh Zayed has witnessed a series of far-reaching changes in the world order as well as that of the Gulf. His early travels to Europe gave him an insight and breadth of vision which have served him well. He has frequently been quoted as saying that the economic and political systems of the world are inextricably linked and that no country, or group of countries, can live and develop in isolation. Indeed, his partnership with the people of the UAE has been significaotly enhanced by the many and varied contributions by people of other nationalities from around the world.

In 1946 HH Sheikh Zayed was appointed Governor of Al-Ain, an historic settlement where evidence of settled civilisation has been traced back to the fourth millennium BC. During the twenty years of his governorship, the transformation of Al-Ain was spectacular. The ancient irrigation systems were revitalised to create a flourishing agricultural and horticultural industry which now meets over 40% of local demand for fresh fruit and vegetables. Such achievemeots and initiatives have served as an effective blueprint for the subsequent development of Abu Dhabi and the UAE as a whole.

"The People Are Our Greatest Resource"

Unquestionably oil and gas have played a pivotal role in the development of the country, but it is the determination of the people and substantial investment in developing their potential that have shaped the UAE's formidable record of achievements thus far. In 1982, just eleven years after HH Sheikh Zayed's accession, the first students graduated from the Emirates University at Al-Ain. And it is on the shoulders of these and subsequent graduates, both men and women, that the hopes and expectations of the country rest.

Right: In just 25 years Abu Dhabi has been transformed from a tiny desert settlement into a thriving, modern garden city.



The respooses to this challenge are clear for all to see. On the one hand, the nation has broadened its industrial base to complement and, in time, reduce its dependence on the oil industry alone. On the other, the social cohesion and confidence of the people is manifest in, for example, the network of trade links forged, the warm welcome extended to visitors from across the world and the enthusiastic participation in sporting events such as the 1990 World Cup.

"Building Bridges of Understanding"

In May 1981, HH Sheikh Zayed inaugurated the first summit conference of the six-member Gulf Co-operation Council in Abu Dhabi. The participating nations comprised the UAE, Saudi Arabia, Kuwait, Bahrain, Oman and Qatar. The significance of this event was soon appareot, as each member state sought to establish a firm base for ensuring the security and prosperity of the region, based on trust and a firm commitment to the guiding principles of Islam.

The GCC has provided a vital forum for promoting pan-Arab unity and a conduit through which differences within the Arab world can be resolved through dialogue and mediation. It is a measure of HH Sheikh Zayed's commitment that he, personally, has played a prominent role through personal contact in building lasting relationships across the globe.

"God Will Direct Our Steps"

Speaking at the inaugural meeting of the GCC, His Highness told his fellow heads of state "I pray to God we shall succeed in our work and that God will direct our steps in achieving the aspirations of the people." These words indicate both the humility and statesmanship with which the Ruler inspires his people to work as one for the common good.

Seven years after the establishment of the GCC, the Paris-based Man of the Year Organisation voted the President the Most Prominent Personality of 1988, citing the part he had played in ending the eight-year conflict between Iran and Iraq and the restoration of ties with Egypt.

Integrity and Honour

The early 1990s were difficult times both for the nations of the region and for HH Sheikh Zayed personally. The Gulf Conflict proved a testing and traumatic experience for all the countries of the region, and placed a huge financial burden on those involved.

For Sheikh Zayed, events surrounding the BCCI episode have proved to be the most traumatic in his thirty years as Ruler of Abu Dhabi. A man who has given so much to his country and his people, His Highness has always remained committed to ensuring that depositors are fully compensated in the wake of the closure of the Bank of Credit and Commerce International.

Throughout this difficult period, His Highness Sheikh Zayed has withstood all attempts to discredit his name. Despite the malicious stories surrounding the BCCI affair, his honesty and stature have steadfastly refuted such unfounded allegations.

By the late 1980s the situation at the bank had deteriorated to such an extent that the Ruler and his government were obliged to intervene, as a matter of honour, to protect the interests of hundreds of thousands of small depositors in the UAE and elsewhere in the world.

After a further five years and a commitment of more than US$5 billion, HH President Sheikh Zayed has succeeded in settling the claims of all small investors in the UAE. It was widely reported in the local press that these depositors will be paid in full before the end of the year. Other secured creditors of the former Bank of Credit and Commerce International can also expect their first dividend of 24.5% by the year end, according to a statement issued in Luxembourg by the bank's liquidators.

Before long the real story behind the BCCI affair will emerge and the truth will be seen to prevail. Above all, His Highness Sheikh Zayed remains a beacon of integrity and honour to his own people and the community at large. He has always stood out as an anchor of hope for the small depositors, a hope he has fulfilled by his insistence on a satisfactory resolution to the whole episode.

A Cause for Celebration

This month marks not only the twenty-fifth anniversary of the formation of the United Arab Emirates, but also HH Sheikh Zayed's thirtieth year as Ruler of Abu Dhabi. It is a period in which a nation has grown from nothing to one of the most modern and socially cohesive countries in the region. According to the World Bank, the UAE now ranks number 12 in the world in terms of per capita income. This astonishing achievement will be cause for gratitude and celebration by many – the nation's 2.2 million citizens, the thousands of expatriate workers who have contributed and more than 1.5 million visitors who come each year to sample a taste of what the future holds in store. They will all enjoy the fruits of ooe man's vision – that of HH Sheikh Zayed bin Sultan Al-Nahyan.

For further information please contact meiac, 50 Hans Crescent, London SW1, England.

Committee unable to accept high flier's testimony 'as being accurate'

Minister resigns after MPs' probe

By James Blitz

Mr David Willetts, the paymaster-general, last night hecame the most prominent scalp of Westminster's cash-for-questions affair when he dramatically resigned from Mr John Major's government.

The 40-year-old MP, widely seen as ooe of the Conservatives' top high-fliers, stunned colleagues by quitting office in the wake of damning criticism of his role as a government whip – a parliamentary party husiness manager – two years ago. His successor was named last night as the MP for Langbeurgh Mr Michael Bates.

The resignation came minutes after a parliamentary committee had accused him of attempting to "dissemble" when giving oral evidence over his involvement in the cash-for-questions affair.

Mr Willetts had heen accused of trying to subvert a previous inquiry in 1994 into allegations that Mr Neil Hamilton, a former Conservative minister, took cash for asking questions in parliament. The all-party standards and privileges committee, in its first formal judgment since it was set up last year, said it would not accept much of the oral evidence Mr Willetts had given at public hearings "as being accurate".

The committee said: "We are very concerned that any member should dissemble in his eccount to the committee and believe that this response by Mr Willetts has substantially aggravated the original offence."

In a brief statement, Mr Willetts said: "In the light of the committee's report, I felt the only honourable thing to do was resign."

The prime minister's office said Mr John Major had not ettempted to dissuade the MP from taking his decision, saying the prime minister had accepted it with regret. "Mr Willetts has tended his resignation as an honourable man," a spokesman said.

The suddan departure from the government of one of the most promoted Conservative MPs of recent years is the latest in a spectacular series of recent blows for Mr Major.

Conservative MPe privately admitted it had finally destroyed any claim the prime minister and his party were in the throes of a pre-election recovery.

The opposition Labour party said the Willetts affair was "a massive embarrassment" for the government, pointing out that the committee was due to investigats further allegations against current and former Conservative ministers.

Editorial comment, Page 13

Ian Waldie

Out: David Willetts arriving at the Cabinet Office yesterday

Share trade rules 'favour big banks'

By John Gapper, Banking Editor

The London Stock Exchange faces strong opposition to its rules on electronic trading of shares, which is due to be introduced next year, on the grounds that they favour large investment banks unduly.

Instinet, an agency stockbroking firm owned by Reuters, the financial information company, has protested strongly that the new rules for order-driven trading are anti-competitive and would give unfair privileges to big banks.

The argument over the rules, which are due to be published tomorrow threatens to resurrect traditional criticisms of the investment banks that currently act as market-makers in company shares for telephone-based trading.

After lobbying by marketmakers – such at NatWest Markets and BZW, the investment banking arm of Barclays – draft rules which were published by the exchange in October have been amended to give them more incentive to risk their capital.

London is due to switch to order-driven trading – in which buy and sell orders for shares are executed electronically – for the shares of FTSE 100 companies on October 20. However, banks will trade big blocks of shares separately.

The controversy is over the rules governing how soon a bank executing a block trade must disclose details of this trade on electronic screens and the degree to which it must take up offers to buy and sell already posted on screens.

The rules are thought to have been amended to allow a delay of an hour before an investment bank has to disclose the terms of some large trades. This may face scrutiny from the Office of Fair Trading, which has opposed such delays.

Instinet has also criticised rules that allow an investment bank executing small orders for less than 1,000 shares through proprietary electronic systems to do so without having to use the public order book under some circumstances.

Mr Doug Atkin, the managing director of Instinet in Europe, accused the exchange of "legislating for inefficiency" in the new rules. It should "aim for a simple, transparent market", he said.

Instinet, one of the biggest brokers on the Nasdaq exchange in New York, has been expanding its business in London in the last few years. It does not risk capital, but instead offers to match buy and sell trades among customers.

The exchange is also thought to have accepted the argument of some large marketmakers that they should not have to take up offers on the public order book when executing big trades of more than six times normal market size.

One director of a marketmaking firm said that banks needed to be given an incentive to risk capital to provide liquidity. "If we are not allowed any secrecy, then nobody is going to risk their capital on behalf of investors," he said.

The exchange's new regime must be approved by regulators as well as the OFT. The Securities and Investments Board, the chief regulator in the City of London, has been pressing for immediate publication of trades.

Watchdog reviews competition policy

By Stefan Wagstyl, Industrial Editor

The Office of Fair Trading, the UK government's competition watchdog, is to consider proposals for strengthening its policy on anti-competitive ties between manufacturers and retailers.

The proposals are published today in an OFT discussion paper which examines such ties as price-fixing and exclusive distribution deals.

Mr John Bridgeman, the director-general of fair trading, said: "This research confirms that in certain circumstances vertical restraints harm competition.

"We are now looking to see how we can incorporate the approach proposed by the authors into our own assessment of vertical restraints. This will, I hope, produce a more systematic and effective application of competition policy in this important area."

The proposals could provoke strong reactions among competition policy officials who have favoured lenient treatment of vertical restraint in recent years.

The government's draft competition bill, which includes several policy reforms, contains no attempts to strengthen the rules on vertical restraints.

European Commission officials have a fairly tough code on vertical restraints but have often granted block exemptions, for example in motor distribution and perfumes. It plans its own discussion paper next year.

Meanwhile, the OFT paper says that while there has been "considerable disquiet over aspects of present policy arrangements" and "the lenient treatment given generally" to non-price restraints there has been little policy change.

The authors reject the arguments of some economists that vertical restraints promote efficiency. The report says that restraints can harm competition in markets dominated by one company or a few powerful ones.

It also points out that retailers as well as manufacturers can dominate markets and abuse their position – particularly in the UK, where supermarkets and retail chains are strong.

Any assessment of vertical restraints should begin with an examination of market power – of retailers as well as manufacturers.

Any further concentration of retailer power in UK groceries could be against the public interest. It says that "rigorous price competition has on the whole been avoided, allowing for high net margins and high profit levels to be maintained".

The report examines recent Monopolies and Mergers Commission studies of vertical restraints into beer, soft drinks, petrol, motor car distribution and ice cream.

It agrees with the MMC's criticisms of the beer and soft drinks industries.

It also supports the MMC's finding that ties in petrol distribution were not damaging.

But it calls for a tougher approach towards ties in motor car distribution and ice cream than that followed by the MMC.

Vertical Restraints and Competition Policy, the Office of Fair Trading, 53 Chancery Lane, London WC2A 1SP.

Finance minister attacked over Emu

By John Kampfner, Chief Political Correspondent

Mr Kenneth Clarke, the UK chief finance minister, called yesterday for a delay in the start-up date for European monetary union if member states continue to have difficulty in meeting the convergence criteria.

But his attempts to present himself as a less-than-ardent supporter of a single currency failed to convince Conservative backbenchers, who accused him of leading the UK into a European "superstate".

With Conservative unity close to tatters over the "wait-and-see" policy of Mr John Major, the prime minister, on the single currency, Mr Clarke attempted to give a measured exposition of the pros and cons.

To shouts of "rubbish" and "resign", he told the House of Commons on the first day of e two-day debate: "There is no Conservative politician who is a federalist. Treating the debate abont Emu as if it were about the creation of e superstate arouses public fears and deprives the public of sensible information."

Mr Gordon Brown, the opposition Labour party's finance spokesman, said the reection to Mr Clarke's speech from Conservatives showed "why the government was so anxious to avoid a vote on this debate".

Mr Norman Lamont, who as Mr Clarke's predecessor was instrumental in negotiating the Maastricht treaty in 1991, quoted senior Bundesbank officials as saying that political union would be a by-product of monetary union.

Mr Clarke said Mr Hans Tietmeyer, Bundesbank president, "doesn't speak for Germany", and that, by contrast, Chancellor Helmut Kohl saw the two issues as separate.

"Any attempt to fudge the criteria to let these countries in would not be in the interests of those countries themselves. And it could be disastrous for the rest of the EU, who would have to suffer the consequences," he said.

● More than four fifths of UK companies have not made any preparations for the introduction of the planned European single currency, a business survey has found, Graham Bowley writes. The poll by Reed Accountancy Personnel, the recruitment consultant, of 200 UK financial directors found 84 per cent of companies had made no preparations, while almost half had not considered the advent of the single currency at all; 10 per cent of companies had made some preparations.

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UK NEWS DIGEST

Doubt cast over millennium plan

Plans for a £700m ($1,150m) millennium exhibition et Greenwich in south-east London were plunged into doubt yesterday after the opposition Labour party refused to give an open-ended commitment to bankroll the project if it wins the general election. Mr Jack Cunningham, the party's heritage spokesman, said the proposed husiness plan for the exhibition on the theme of time was flawed and the viability of the scheme was questionable.

Mr Michael Heseltine, deputy prime minister, spent yesterday in talks with other members of the Millennium Commission to discuss whether the project could proceed without Labour backing. The collapse of the plan would be a huge personal blow for Mr Heseltine, who has given the exhibition his personal endorsement and has won pledges worth about £150m from the private sector.

The corporate sponsors, including British Telecommunications and British Airways, have warned they will pull out unless they received undertakings that an incoming Labour government would underwrite any cost overruns. The commission meeting broke up yesterday without agreement on whether to release £200m of National Lottery funds for the project. The Commission will meet again today, and may ask the private sector operating company for the exhibition, Millennium Central, to come back with new proposals. *George Parker*

■ TELECOMMUNICATIONS

Mobile phone call costs to rise

The cost of calls to One-2-One and Orange mobile phones from the British Telecommunications network is set to rise substantially in February as e consequence of negotiations now being concluded between the three operators. BT's customers currently pay about 16.71 pence (27 cents) e minute at peak rates to call an Orange or One-2-One phone. From mid-February the cost is expected to rise to between 29p and 30p a minute at peak times and 19p to 20p in the evenings. The cost of calls from mobile phones to BT fixed phones or to other mobile networks will not be affected. The price changes will result in a significant boost to the revenues of the two mobile operators, who at present do not recover their fully allocated costs for delivering calls originating on BT's network from the fixed line operator. *Alan Cane*

■ SUGAR

Producers give price undertaking

British Sugar and Tate & Lyle Industries, which together hold more than 90 per cent of the UK sugar market, yesterday gave undertakings to the Restrictive Practices Court not to fix sugar prices. If the companies break the undertakings they could be fined. But the court does not have the power to impose a penalty for this offence which stemmed from an agreement between the two sugar producers not to compete on prices for a period between 1986 and 1990. The case has been before the court since June 1991. The two are still being investigated by the European Commission over the same issue, and that could result in the companies being fined.

Mr John Bridgeman, director-general of the Office of Fair Trading, yesterday called on the government to reform the law on restrictive agreements. The two companies will have to pay the OFT's costs. Both groups said they had instituted compliance programmes following the discovery of the price-fixing agreement. *Maggie Urry*

■ PETROL

Spending cuts blamed on price war

Petrol retailers have cut capital investment by up to 50 per cent to protect profit margins during the long-running price war, according to forecourt equipment suppliers. Companies manufacturing products such as petrol pumps, hoses and computer controls say retailers including Esso, Shell and supermarket chains Tesco and J. Sainsbury have imposed a "selective freeze" on new investment.

The latest quarterly figures from the Petrol Pump Manufacturers Association show year-on-year orders fell by 48.8 per cent to 1,243 units in the three months to September 30. Some industry analysts have cut their investment forecasts for the UK retail sector from about £300m ($528m) to £130m this year. *Tim Burt*

■ LIFE EXPECTANCY

Death rates decline over decade

Unskilled labourers are almost three times more likely to die before the age of 65 than professionals, although mortality rates for all social classes have declined over the past 10 years, a study shows. According to research by the Office for National Statistics, there is still e clear correlation between mortality rate and social class for men aged between 20 and 64. Males in professional jobs tend to live longer than those in manual or clerical jobs who, in turn, outlive unskilled workers. The study shows that the mortality rate for men in professional or managerial occupations declined by 35 per cent between the early 1970s and the early 1990s. *Mark Suzman*

■ TRUCK SALES

Second monthly registration fall

Truck registrations plunged heavily for the second month in a row during November following the registration bulge in September ahead of tougher, "Euro 2" exhaust emissions legislation introduced on October 1. A rush to beat the deadline caused registrations of trucks over 3.5 tonnes to leap by 121 per cent, year-on-year, in September. The year-on-year registration fall of nearly 40 per cent in October was followed last month by a 35 per cent drop, to 3,156 units from 4,853 in the same month a year ago. In the 11 months of the year so far over-3.5 tonnes registrations have fallen 2.9 per cent to 47,652 units compared with 49,065 at the same time last year. *John Griffiths*

Hackers find ways through software firewalls

The raid on the Labour party's Web site highlights a security problem facing many companies

The apparent ease with which a US computer hacker penetrated the defences surrounding the opposition Labour party's World Wide Web site this week serves as a timely reminder that all computer security systems, no matter how sophisticated, can be circumvented by a determined expert.

The raids – which involved recasting Mr Tony Blair, the Labour leader, as his puppet caricature from the satirical TV show *Spitting Image* – come at a critical stage in the development of the Internet and electronic commerce.

Over the past two years, a growing number of organisations have established a Web presence transforming the Internet from a plaything for academics and "techies" into a valuable communications, marketing and research tool and setting the stage for the emergence of a global electronic marketplace.

The latest new arrival on the Web is 10 Downing Street – the prime minister's official London residence – which yesterday launched its own site, featuring links to a wide range of other political pages, including Labour's.

But the very nature of the Internet – an open system without e governing body – invites the interest of hackers, most of whom are young, male and more interested in demonstrating their technical prowess than causing damage or theft. While market surveys confirm that Internet security remains a primary concern for many chief executives when considering setting up a Web site, sophisticated software security packages called firewalls and other techniques for keeping out unwanted visitors have appeared to offer comfort.

Sales of security software and equipment are growing at about 40 per cent a year and are expected to be worth about $1bn a year by the end of the decade. But studies suggest that more than 80 per cent of sites are unprotected.

According to US estimates, a computer on the Internet is broken into every 20 seconds, and it is not just business computers which are at risk. The Pentagon's computer systems were attacked about 250,000 times last year, according to the US defence department's computer security force. Hackers employ a wide range of methods to evade or overwhelm computer security systems.

Sometimes it is as easy as guessing a password – most people still pick family names or birthdays for their password and rarely change them.

In the US, computer hacking clubs arrange evenings of "dumpster dipping", sifting through rubbish bins behind office buildings looking for computer print-outs – prime sources of passwords and other information.

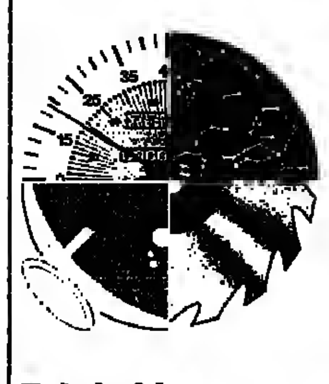
Another problem for the makers of firewall software is that the software used by hackers themselves is becoming more sophisticated all the time. Programmes such as Satan (Security Administrator Tool for Analysing Networks) was distributed freely over the Internet last year.

Other hacking tools, such as Rootkit provide free software developed by hackers themselves to enable an intruder to get "root access" to a network and then take control as though they were a systems administrator.

Paul Taylor

هكذا من الأصل

Worth Watching · Vanessa Houlder



Fabric idea bubbles to surface

A Korean sports equipment manufacturer is using e newly-patented fabric to make ultra-thin, floatable clothing capable of supporting a 21 stone man in water.

The fabric, which contains thousands of trapped air bubbles, is 0.5mm thick and can support 4.93kg per square centimetre in water. It is made from low-density polyethylene and e foaming agent, in a process that involves heating, compression and cooling.

Weekwang Trading Company is using the material to make lifejeckets and clothes for fishing, sailing and mountaineering. Its first product, a fishing suit, will cost $850; it is evailable only in South Korea.

Korea International Trade Association: South Korea, tel 25510114; fax 25515249.

Barcodes put in the shade

Some companies print barcodes on documents and letters so they can keep track of them as they are processed and sent to customers. A less obtrusive alternative to the barcode for this type of application has been developed by Xerox and Formscan, an optical recognition equipment manufacturer.

DataGlyphs are tiny 45° diagonal lines, each of which represents a single binary 1 or 0 depending on whether it slopes to the right or the left. When they are laid down in groups on a regular, finely spaced grid, they appear on the page as a shaded area. The overall effect resembles the half tone of a photograph, allowing the lines to be incorporated unobtrusively in a logo.

The glyphs, which were originally developed et Xerox's laboratory in Palo Alto, California, can be read at speeds of more than 20,000 pages an hour. They can also be printed on documents to assist with electronic filing systems.

Formscan: UK, tel (0)1373 461446; fax (0)1373 461269.

Drugs delivered more easily

An electronic inhaler that allows drugs to be delivered more easily and precisely could improve the treatment of diseases such as asthma.

The TouchSpray, which was developed by The Technology Partnership, a UK research company, is designed to cut down the effort and co-ordination needed by patients.

Instead of using propellants, it has an electronic sensor that monitors the patient's breath. At the right time, it releases a fine spray of droplets that should reach deep into the lungs.

Glaxo Wellcome, the pharmaceutical company, has signed e licence agreement that will give it access to the TouchSpray technology for treatments for asthma and related ailments.

The technology can be adapted for optical, nasal, aural and ophthalmic delivery. It will expand the choice of delivery devices which include nebulisers, dry powder inhalers and propellant-based metered-dose inhalers.

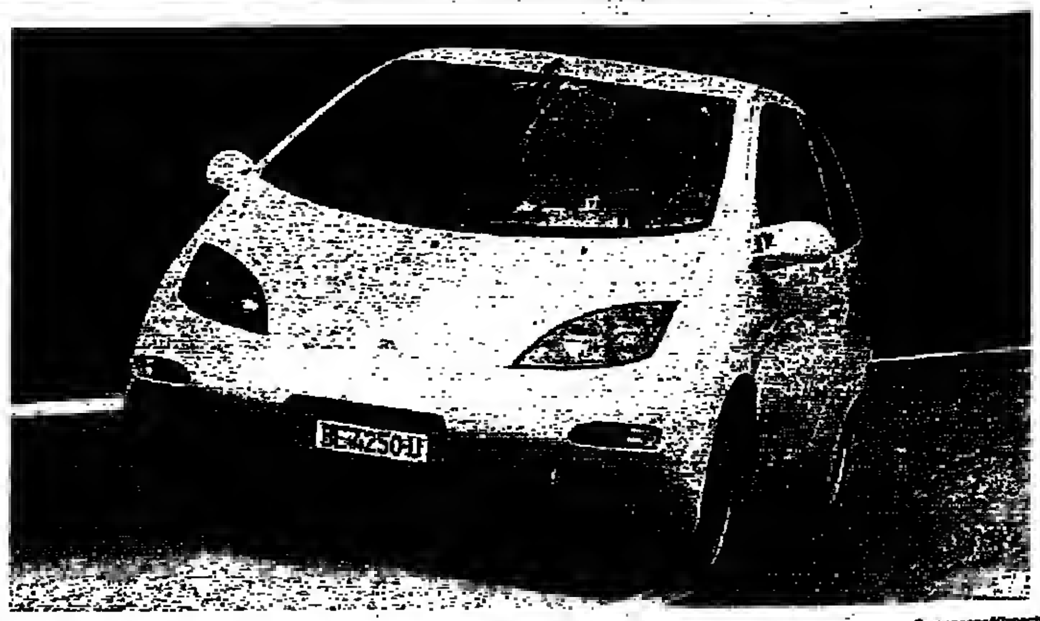
The Technology Partnership: UK, tel (0)1763 262626; fax (0)1763 261582.

Ground pollution on the rails

One potential cause of ground or water pollution is oil discharged from trains. 3M, the industrial group, has developed e technique for blocking ground pollution on railway tracks.

The Track Tray contains sheets that repel water but absorb oil discharged from trains. After use, the contaminated sheets can be wrung out. The technology has been tested et an Exeter maintenance depot, where trays have been laid and monitored.

3M: UK, tel (0)1325 300546; fax (0)1325 305260.



Greenpeace/Vagsch

A drive for acceptance: Greenpeace is touring European manufacturers to interest them in technology for the Smile

Greenpeace wants carmakers to take on its designs for a low-fuel vehicle, writes **Leyla Boulton**

Smile milestone

Greenpeace, the environmental pressure group, has got itself involved in a race with the world's car manufacturers for a green car for the 21st century.

But while carmakers say that a vehicle capable of travelling 100km on 3 litres of petrol will take years to develop, Greenpeace claims it has already won the race.

It is currently touring Europe's car manufacturers in an attempt to interest them in technology developed for its Smile (small, intelligent, light, efficient) car. The car, which started life as a Renault Twingo, can travel 100km on 3.3 litres, halving the Twingo's fuel consumption and the emissions associated with environmental problems, such as global warming.

The car was altered for Greenpeace Germany by Swiss engineers at an estimated cost of DM2.5m (£970,000).

The Smile's busy schedule includes meetings with Fiat this month and Mercedes-Benz in mid-January. December will also see emissions and fuel consumption tests by Swiss vehicle authorities. Greenpeace is offering to lease the technology developed for the Smile to any company which promises to work seriously on it. Greenpeace wants to reserve the right to take the technology elsewhere if no progress is achieved within one or two years.

So far the response from the companies that could put this vehicle on the market has been polite discouragement. "I would say the response has been a bit disappointing," admits Wolfgang Lohbeck, head of Greenpeace's Smile team. "But on the other hand, a decision to build a new car is not taken in a matter of days or weeks."

Industry argues it could produce a similar car any day but that this would not satisfy the budget, comfort, durability, and safety requirements of consumers. It points out that these features have increased cars' weight, offsetting the fuel efficiency gains of the last two decades.

Mercedes-Benz says it will aim to convince the environmentalist organisation that it is already well on the way to success with its planned launches of the A-class car and the Smart.

The A-class car, a small Mercedes unveiled this week, consumes 40 to 70 miles per gallon, still well short of the 90 miles per gallon goal.

But the company says the "customer wants a whole car concept of which low fuel consumption is only one part, alongside high safety, comfort, and durability".

Elsewhere, a deafening silence has met Greenpeace's overtures to Peugeot and Renault of France. But Lohbeck is also eager to explore co-operation with Japanese manufacturers, such as Mitsubishi.

Greenpeace's foray into car manufacturing, after its success with an environment-friendly freezer, is part of its attempts to promote solutions to environmental problems.

This is inspired by a desire to move away from simply campaigning against problems, without necessarily forsaking the direct action for which it is famous. Greenpeace secured its offer of "high-level talks" with Mercedes-Benz after scaling the company's headquarters.

The move also underlines a suspicion by Greenpeace that the industry is sitting on solutions that are against its vested interests. This is vehemently denied by Volkswagen, the first car manufacturer to set itself the goal of developing a 3 litre car. But Dietrich Meyerdieks, head of environment and transportation at Volkswagen, Europe's biggest carmaker, says the Greenpeace vehicle has "nothing to do with mass production".

Greenpeace in return dismisses Volkswagen's reliance on diesel engines as "an energy-saving tool", and points to the company's slowness in developing the 3 litre car.

More than such polemics, the challenges facing Ford in bringing its Ka Step 1 car to market may help to illuminate the difficulties facing the Smile.

Ford says the Ka Step 1, unveiled last month, achieved 90 miles a gallon – close to 3 litres per 100km – on a rigorous new European Union fuel cycle. But Richard Parry-Jones, vice-president of Ford's global small to medium vehicle centre, says it "would not be affordable to most people, and we could sell [it] only in a very limited volume".

Yet Greenpeace claims its car really does offer something new. It has a supercharged, horizontally opposed two-cylinder four-stroke engine, of 358cc and putting out 55 horsepower. The stress implied in this combination prompts Meyerdieks to liken the Smile to a Formula One racing car.

The car is 195kg lighter than a standard Renault Twingo, with the engine alone weighing 80kg less.

Greenpeace says one problem with most cars is that they are still built with a view to maximum acceleration and high speeds, although "in reality cars are generally used in city traffic where performance requirements are low".

Responding to companies' accusations that it is not making the car widely available for independent testing or that the car would fail a crash test, Greenpeace points out that it has just the one car.

Tests to be conducted by Swiss authorities later this month should shed more light on this unique car which has already travelled 100,000km.

Excepting a surprise deal to market the technology, however, the Greenpeace Smile is more likely to spur car manufacturers further and faster along the route they are already travelling independently.

"It is important that somebody should show what is possible," says Lohbeck. But that will not be enough for Greenpeace, which has already said that "3 litres of petrol are 3 litres too many". It argues that fossil fuels must be dispensed with "completely" as soon as possible.

But in the name of its new-found pragmatism, Greenpeace accepts there are still only "niche markets for solar and electric vehicles" even in Germany, home of the first people's car and one of the greenest markets.

Test speaks volumes

With Christmas coming, increased attention will soon be paid to drinking drivers, and the breathalyser teams will be busy. But blowing into a bag and giving blood samples may become redundant if a noval speech analysis system reaches the roadside.

Researchers at the Georgia Institute of Technology in Atlanta are working on a digital analysis technique aimed at turning a recording of elurred speech into a simple test for drunkenness.

They are studying what happens to speech patterns when affected by alcohol consumption, and how this can be detected and digitised for computer analysis.

During normal speech, air passes from the lungs to the glottis, an opening in the vocal cords; it is then shaped into sounds by part of the vocal tract, including the tongue, teeth and lips. The puffs of air produced by the opening and closing of the glottis during speech are called glottal excitation waveform.

This waveform is important in the subtle differentiations in speech; differences can be detected between the waveform for normal speech and for that of someone who has been drinking excessively.

Tests indicate that intoxication causes jumpy changes in pitch and energy production with unsteady opening and closing of the vocal cords. A suspect driver's speech would be recorded et the roadside and compared with a sample recording taken when the driver had not consumed alcohol.

The system could be used to test aircraft crews, train drivers or other operators of machinery. In these cases speech would be compared with previous recordings.

The researchers are comparing their results with other factors that affect the way speech is perceived, including speech defects, colds, diseases and injuries.

Michael Sibley

ARTS

Cinema/Nigel Andrews

Spots knocked off the opposition

101 DALMATIANS
Stephen Herek

STAR TREK: FIRST CONTACT
Jonathan Frakes

ACTS OF LOVE
Bruno Barreto

STEAL BIG, STEAL LITTLE
Andrew Davis

THE LAST OF THE HIGH KINGS
David Keating

Those intimate with the world of showbiz will know that there is a saying among dogs and children: "Never act with Glenn Close." Tots have had the good sense to stay away from *101 Dalmatians*. But piebald puppies are all over the screen. With plaintive eyes, puckery snouts and lovable ill-coordination they strive to make the audience's "Ooh aahs" sound louder than the pantomime hisses inspired by Close's Cruella De Vil. But this is a one-creature movie, and the one creature sees off the opposition.

Close has not been this good since her last starring villainess, in *Fatal Attraction*. Her Anthony Powell-designed clothes make Joan *Dynasty* Collins seem like a bag lady: frenzies of geometric delirium in loud colour, topped by electrocuted-looking hair frizzed into one black side, one white. Close must also have studied at the Fenella Fielding school for rococo lip movement. Moues, pursings and silent snarls are added to every line-reading. And she is possessed of an excellent thing in a villainess: totally credible passion.

We *believe* that this demonic fur fancier longs to break into the London mews home of newlyweds Jeff Daniels and Joely Richardson to steal their Dalmatian litter. (So good for coats.) We never doubt that she would hire two reward-hungry, accident-prone hit men (Hugh Laurie, Mark Williams) whose brains are in their wallets. And we are entirely confident that at work she would favour an assistant (Tim McInnerny) whose response to her contemptuous "What sort of sycophant are you?" is "What sort of sycophant would you like me to be?"

Everything else in this live-action remake of Disney's most popular cartoon feature is as piebald as the title animals. Moments of wit or idiot charm – Americans still think of London as a wonderland of old-world rooftops winking across a glimmering Thames – contend with longueurs. Time particularly drags its paws in the action showdown, set in and around Cruella's Gothic manse. The script by John *Home Alone* Hughes insists on yet another of his crook-punishing mirth marathons, with Laurie and Williams enduring the electrified fence, the falling elk's head, the sewage pool and the thousand ills that theft is heir to.

It is Close who tips the film towards watchability. "I have great respect for the character of Cruella De Vil" the actress has said and we believe her. No other attitude would have ensured that a cartoon gorgon preserves her cartoon gorgonishness while also emitting the wildhaired, wild-moue'd charm of true human madness.

★

On matters tonsorial, barbers have for decades despaired at TV's *Star Trek* series. Its first hero William Shatner wore disposable hair, its new hero Patrick Stewart wears none at all. What an advertisement for the trade.

In addition Stewart's pate gleams like a geodesic dome, indicating together with his character's French name a frightening amount of brain activity. Unlike Shatner's campily beloved Kirk, Stewart's Jean-Luc Picard is a Prospero or Sartre in outer space. And the cerebral authority pays off handsomely in *Star Trek: First Contact*.

This is the seventh movie and hell is still breaking out all over the dialogue track. "Sir, the Vortex is collapsing" says someone. "The Borg!" cries someone else. "Mid-21st century civilian clothing!" snaps Stewart. And they briefly kit up in old-fashioned clothes – for the plot has begun in the 24th century – to begin battle against the evil Borg (plural) and their wire-sprouting, bald-pated leader Alice Krige (more despair for hairdressers) by helping the rocket scientist James *Babe* Cromwell re-ignite the future by...

And so on. The plot is unexplainable, you just have to be there. What makes this a stronger showing than the last trekky epic is Stewart's growly dominance and the script's determination to underpin it. We have references to everything from *The Bible* to *Moby Dick*. And we have space battles and explosions, very spectacular, taking second place to the emotional battles and explosions going on in Picard's face.

★

Actor Dennis Hopper feasts on scraps in *Acts Of Love*. We are deep in Texas, where cinematographer Declan Quinn (*Leaving Las Vegas*) aims a late-afternoon light at characters striving to postpone the twilight of their own lives. Farmer and small-town schoolteacher Hopper, listlessly pursuing a 20-year romance with fellow teacher Amy Irving, tumbles almost literally into an affair with blonde pupil Amy Locane, attracted to the hayloft above the stall where Hopper lets her berth her horse.

Jim Harrison novels have given us two outsize film follies, *Revenge* and *Legends Of The Fall*. Director Bruno Barreto and screenwriter Ed Jones play this tale quietly and Hopper more quietly, indeed almost soundlessly. Yesterday this actor mugged and raved with an eyepatch in *Waterworld*. Today he lets us peer at a man whose thoughts seem to be crushing his skull even as the Texas sky pushes down on the land.

We feel the pulse of ordinary folk meeting the anguish of their middle years. The film turns procrastination into tragicomedy. Nothing is sadder, nothing funnier than the scene where Hopper impulsively, theatrically strips to the buff, standing bright-lit in Irving's front parlour in a bid to throw some adventure into their romance. Irving looks, pauses and then glides off into the next room with "I need to think a minute."

★

In *Steal Big, Steal Little* it is hard to follow anyone's emotions or motives. Every actor, not least Andy Garcia in a double role as twin brothers who grow up into enmity, seems bemused, as if wondering where the storyline has gone. It has probably been swallowed by the cod-Latino music. Violins shake, trumpets shimmer and maracas threaten as the evil Garcia fights to push the good Garcia off the farmland deeded by their adoptive Mom. In the process dozens of innocent peasants will be unhoused, whose only crime is to have wandered into this belated rip-off of *The Milagro Beanfield War*.

Then again perhaps it a "modern Tom Jones," as director and co-writer Andrew Davis (*The Fugitive*) has styled it. Either way it rollicks nervously between eco-melodrama and broad comedy, between underacting (Garcia) and heavy mumming (everyone else). Alan Arkin shouts as the good lawyer. Joe Pantoliano goes mad and talks to parrots as the bad lawyer. And veteran Hollywood teeth-grinder Kevin McCarthy, as a corrupt bigwig, looks as if he is still in paranoid overdrive 40 years after meeting those *Invasion Of The Body Snatchers* pod people.

The Last Of The High Kings is an affable Irish film about one of those summers where "everything changes." Catholic Boy (Jared Leto) grows up and discovers sex. Mum (Catharine O'Hara) rails about Protestant trollops. And Dad (Gabriel Byrne, who also co-produced) is a travelling player, whose long absences from home are no doubt due to his checking out how many near-identical rite-of-passage stories are being filmed in the rest of Ireland.

'Fatal Attraction' meets 'Dynasty': Glenn Close as Cruella de Vil steals the show in '101 Dalmatians'

Opera

Tired looking Turandot

It would be interesting to know what Andrei Serban thinks of his 12-year old Royal Opera production of *Turandot*, now that it has been wheeled out for another revival at Covent Garden. It was long regarded as a stunner, a highly visual display without excess spectacle. On Tuesday it looked unsubtle and undermotivated – in short, several notches less than stunning.

Every production, even a crowd-pleaser like this, needs the hand of the original director at some point in its life to refresh it, remould it and recreate the spell. This is what the Serban *Turandot* needs. Despite the dutiful attention of the revival director, Susanna Best, it now looks dated and artistically (if not commercially) redundant.

Of course, we have to make allowances. The Royal Opera doubtless has more important things on its mind this week, what with Domingo's return and tonight's televised fund-raising gala. Nuccia Focile was announced as severely indisposed – though she made a very respectable, albeit fragile, stab at Liu. And a production can only undergo a limited number of cast changes before it begins to don an all-purpose glaze.

But the two other principals, Sharon Sweet in the title role and Giuseppe Giacomini's Calaf, are well versed in this production from previous revivals. Despite some touch-and-go moments in Act 2, Giacomini emerged with credit. His singing was properly robust, his appearance virile and dignified. Sweet was a disappointment. She sang the notes: *basta*. There was neither ice nor fire – just a flash of the frightened little girl running to daddy after the riddle scene, hoping to be saved from the all-conquering male.

There may be sadism and masochism aplenty in *Turandot*, and a whole subtext about the castrating female, but this revival offers little more than decorative artifice, a Gozzified view of the orient in which neither chorus nor choreography has any dramatic function. The Act 2 silk screen looks cheap; Liu's suicide fails to move, and the final appearance of her funeral trolley is just too blunt.

The only redeeming feature is Daniele Gatti. He is a real theatre conductor, because he knows exactly how to raise the tension and relax it. The choral climaxes were thrillingly pulled off, the formal confrontations unerringly paced: Puccini's orchestration gava off its full perfume. Gatti is also a good singers' conductor, and an asset to the company. So is John Dobson's Emperor, an eloquent portrait of frailty.

Andrew Clark

Goldner for the Ashmolean

George Goldner, the drawings curator for the Metropolitan Museum of Art, New York, has been appointed as the new director of the Ashmolean Museum, Oxford. Goldner, 53, is widely regarded as one of the most aggressive and successful curators in the US, having revived the Metropolitan's moribund drawings department in the three years since his appointment.

The appointment of an American to head a British institution is a reversal of the usual trend, and is embarrassing to the British art historical establishment.

Goldner said the opportunity to move to the Ashmolean was "too good to pass up." He will assume his position in Oxford in autumn 1997, when current curator Christopher White retires.

Music in London/David Murray

Ligeti's clocks and clouds

On the South Bank, György Ligeti's music is being celebrated to excellant purpose. "Clocks and Clouds" – a title borrowed from Karl Popper (every cloud is a "clock", a seemingly indeterminate mass governed by intricate rules) – makes a curious "series": we have just heard half of its Part 1, on Thursday last and Monday, with the rest to follow in February, while Part 2 has to await the 1997-98 season.

The South Bank's Ligeti festival in 1989 was more closely collected. This time round, however, tha concerts are linked to a grand recording project instigated by Vincent Meyer, the Philharmonia's president and a laudable Maecenas. By 1998, when Ligeti turns 75, his entire *oeuvre* will be available on 13 Sony Classical CDs: a splendid tribute to the composer, and a source of endless delight and tantalisation for music-lovers.

An essential part of it all is the conductor Esa-Pekka Salonen, who enjoys an uncanny sympathy with Ligeti's music and has the technique, and the ear, to draw it from the Philharmonia to the most beautiful effect. Thursday'a performance of *San Francisco Polyphony*, one of Ligeti's more "hard-edged" – and best – pieces, glowed with magical chiaroscuro.

Though it is easy to hear as a nocturnal city soundscape (Ligeti never disdains onomatopoeia), the fascination of his meticulously calculated sounds – quietly overlapping and melting, occasionally stabbed through by a solo instrument or a kerfuffle of muted brass – soon takes over in its own right, with its own internal logic. So too do the sounds of his Cello Concarto, in quite another vein, where the soloist struggles comically to find his voice, competes against orchestral voices to make his mark, and finally slips away into choked silence.

Ligeti's "micro-polyphony", voices ceaselessly interwoven on a scale so tiny that the ear cannot quite make out what is going on (the "Clocks and Clouds" model), has never made a greater impact than in the mid-1960s *Requiem* that we heard on Monday. The words are drawn selectively from the canonical text: a "Requiem aeternam", a Kyrie, a "Dies irae" and a "Lacrimosa". Through micro-polyphony, distinct levels of density are established and expressively subverted, with echoes of old church "modes". Wa beard devout laments compounded from many individual voices, and a multiply fractured vision of the Day of Wrath in a stern post-Modernist collage.

Botb programmes were enhanced by cunningly matched "safer" works. Thursday's Ligeti pieces were followed by Mahler's Symphony no. 4; going out at the interval, I was momentarily surprised to see a lot of people already hanging about in the bar, before I twigged. If they had been prepared to brave Ligeti, some of them might well have been seduced.

Salonen's Mahler Four was very taking but defiantly non-Viennese, rejecting *rubato espressivo*. Bright, innocent fragments jostled brittly against one another. The Scherzo became a grindingly dissonant, disorienting collage of popular bits, like Benjamin Zander's diabolical version of the Mahler 9th Scherzo a year ago.

Before the Ligeti Requiem on Monday, Salonen chose a perfect foil: Debussy's sweetly, hieratically elevated music for d'Annunzio's *Martyre de Saint-Sébastien*, an unhealthy and ultra-camp ballet-oratorio that even Neil Bartlett would hesitate to revive in its original form. Debussy's heart was never quite in it; his first musical ideas, decidedly haunting, decline eventually toward Hollywood and heavenly choruses.

So much the better, though, to set off Ligeti'a severe, gentle lines, with individual murmurs coalescing briefly into devout collective pleas before subsiding again. Where Debussy was sexy, Ligeti's *Requiem* was clear-eyed and bracing.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-6718345
● Leonidas Kavakos and Peter Nagy: the violinist and pianist perform works by Ravel, R. Strauss, Koukos and Bartók; 8.15pm; Dec 15

■ ANTWERP

OPERA
De Vlaamse Opera
Tel: 32-3-2336808
● De Vlaamse Opera and Il Fondamento: with conductor René Jacobs perform Blow's Venus and Adonis and Purcell's Dido and Aeneas. Soloists include Janice Hall, Daniel Mobbs, Susan Maclean and Ned Barth; 3pm; Dec 15

■ BERLIN

CONCERT
Konzerthaus
Tel: 49-30-203090
● Mozart-Trio Berlin: with pianist Christina Bleidorn and tenor Matthias Bleidorn perform works by Zemlinsky, Cornelius and Mendelssohn; 7.30pm; Dec 13
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Berliner Symphoniker: with conductor Peter Schwarz and the Berliner Cappella perform works by Stravinsky, Respighi and J.S. Bach; 8pm; Dec 15
● Sinfonie Orchester Berlin: with conductor Borislav Iwanov perform works by Haydn; 8pm; Dec 14

■ BOLOGNA

OPERA
Teatro Comunale di Bologna
Tel: 39-51-529901
● Otello: by Verdi. Conducted by Christian Thielemann, performed by the Orchestra e Coro del Teatro Communale di Bologna. Soloists include Henning Brockhaus, Josef Svoboda, Sárka Hejnová, Piero Monti and Marta Ferri; 3.30pm; Dec 15

■ BRUSSELS

EXHIBITION
Palais des Beaux-Arts
Tel: 32-2-5078466
● Karl Blossfeldt: exhibition of works by the German photographer Karl Blossfeldt (1865-1932), who is known for his detailed black-and-white photographs of flowers and plants. The display features approximately 200 original photographs; to Jan 5

OPERA
Théâtre Royal de la Monnaie
Tel: 32-2-2291200
● Die Zauberflöte: by Mozart. Conducted by David Robertson, performed by La Monnaie. Soloists include Ernst Theo Richter and Judith Vindevogel; 7pm; Dec 13, 15 (3pm)

■ COLOGNE

CONCERT
Kölner Philharmonie
Tel: 49-221-2040820
● Gürzenich-Orchester and the Kölner Philharmoniker: with conductor James Conlon and soprano Adrianne Pieczonka perform works by R. Strauss and Janácek; 8pm; Dec 15 (11am), 16, 17
● Juliane Banse and Wolfram Rieger: the soprano and pianist perform works by Schubert; 8pm; Dec 13

■ COPENHAGEN

OPERA
Det Kongelige Teater
Tel: 45-33 69 69 69
● Masquerade: by Nielsen. Conducted by Thomas Dausgaard, performed by the Royal Danish Opera. Soloists include Stephen Milling, Kari Hamnoy and Johan Reuter; 8pm; Dec 13

■ LILLE

OPERA
Opéra de Lille
Tel: 33-20 06 88 04
● Le Nozze di Figaro: by Mozart. Conducted by Jean-Claude Malgoire (Dec 12) and Mirella Giardelli (Dec 14), performed by La Grande Ecurie et La Chambre du Roy and the Choeur Régional Nord-Pas de Calais. Soloists include Nicolas Rivenq, Daniella Borst, Sophie Marin Degor and Hubert Claessens; 8pm; Dec 12, 14

■ LONDON

AUCTION
Sothebys; Parke Bernet & Co.
Tel: 44-171-4938080
● Old Master Drawings: Tha Collection of Marcel Jeanson. Auction of ornithological watercolours from the Jeanson Collection. This is the third part of this collection to be put on sala, following two sales conducted by Sotheby'a in Monaco in 1987 and 1988, which raised £4m and £2.7m respectively; 2.30pm; Dec 13

CONCERT
Barbican Hall
Tel: 44-171-6384141
● Requiem: by Verdi. Conducted by Sir Colin Davis, performed by the London Symphony Orchestra and the London Symphony Chorus; 7.30pm; Dec 15
St. John's, Smith Square
Tel: 44-171-2221061
● Holst Singers: with conductor Stephen Layton perform works by Holst, Britten and others. Soloists include organist David Goode; 7.30pm; Dec 14
Wigmore Hall
Tel: 44-171-9352141
● Westminster Cathedral Choir: conducted by James O'Donnell perform works by Victoria, Poulenc, Howells, Gabrieli, Sweelinck, Warlock and others. Soloists include organist Andrew Reid; 7.30pm; Dec 14

OPERA
London Coliseum
Tel: 44-171-8360111
● Les Pêcheurs de Perles: by Bizet. Conducted by Michael Lloyd, performed by the English National Opera (in English). Soloists include John Hudson, Mary Plazas, Ashley Holland and Mark Richardson; 7.30pm; Dec 13

■ NEW YORK

AUCTION
Sothebys
Tel: 1-212-606-7000
● The World of Movie Posters: sale featuring 285 posters spanning more than 60 years of movie history. Among the highlights are posters from the Golden Age of Hollywood with images of *Casablanca*, *Gone with the Wind* and *The Maltese Falcon*, portraits of Hollywood's most popular divas, including Marlene Dietrich, Bette Davis and Marilyn Monroe, and animation posters with the Disney characters Snow White and Pinocchio; 2pm; Dec 14

CONCERT
Carnegie Hall
Tel: 1-212-247-7800
● A Holiday Tradition: by Henderson. Conducted by Mary Ann Dutton, performed by The Phoenix Chorale; 8pm; Dec 13, 14

EXHIBITION
The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Christian Dior: the exhibition presents the achievement of Christian Dior, who in the 10 years from 1947 to 1957 created the foundation of post-war fashion. Beginning with the 1947 Naw Look, Dior gave the post-war period its most important fashion icon of renewal and optimism. The exhibition is drawn primarily from the collection of The Costume Institue and includes more than 80 pieces; from Dec 12 to Mar 23

■ PARIS

CONCERT
Théâtre des Champs-Elysées
Tel: 33-1 49 52 50 50
● Orchestre National de France: with conductor John Nelson and soprano Felicity Lott perform works by Strauss, Offenbach, Lehár and Messager; 8.30pm; Dec 14

■ VIENNA

CONCERT
Wiener Kammeroper
Tel: 43-1-5120100
● Ethan Freeman: the tenor performs works by Brahms, Ravel, Sondheim and others; 7.30pm; Dec 15

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(Central European Time)

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NBC/Super Channel:

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FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

COMMENT & ANALYSIS

Peter Martin

Branded by success

Companies would be wiser to spend their extra cash on marketing than on technological research, a US study on personal computers suggests

Who is more important to the company: the marketing director or the head of research and development? To put it another way: in a business downturn should you slash the advertising budget or shut the labs?

The question has haunted business since the dawn of the advertising age. Was the person who wrote Ivory soap's legendary slogan "It floats!" more important than the chemist who made it lighter than water? Was the copywriter who came up with "A diamond is forever" more or less important than the mining engineers who devised new ways of getting gems out of the ground? Was MCI's Friends and Family discount programme more important in the early 1990s than AT&T's ownership of Bell Labs?

The debate has now come a step closer to resolution thanks to an interesting case study* published by the National Bureau of Economic Research in the US. Its conclusions are couched in suitably cautious academic prose. But to the brash outsider, there is a clear message: Marketing Matters More.

The study examines the US market for IBM-compatible personal computers in the late 1980s, around the time of the introduction of the 386 chip. But before you yawn and turn the page – not just another article about PCs, but one about models that are now hopelessly obsolete – consider the unusual characteristics of the business.

The PC market of the late 1980s had low barriers to entry, transparent pricing, a high degree of competition, rapid price evolution and clear differences between products based on both technology and brands. In short, it offered almost laboratory conditions to examine winners and losers. The three authors of the NBER study – Timothy Bresnahan, Scott Stern and Manuel Trajtenberg – make the most of their opportunity.

When the 386 chip was launched by Intel, exploiting it to build a new generation of PCs required considerable technical skill. PCs based on the new chip were also much more expensive than ones based on its predecessor, the 286. So the two generations of machines co-existed for a while. There was a clear market distinction between those machines with frontier technology (in the authors' terms) and the rest.

The other division in the market, the authors say, was between branded PCs and non-brands. A nationally publicised brand promised PC buyers reliability, service and support. Although there are now many established suppliers of branded PCs, the authors judge that in the late 1980s only IBM, Compaq, AT&T and Hewlett Packard had brand status.

The existence of these two types of differentiation created four market clusters:

● Branded/frontier – such as the 386 PCs made by Compaq and IBM, selling in 1988 at an average price of $7,577 (£4,620).

● Non-branded/frontier – such as the 386s made by small high-tech manufacturers, selling at $5,130.

● Branded/non-frontier – such as the 286 machines made by AT&T and Hewlett Packard, selling at $2,924.

● Non-branded/non-frontier.

This last group, selling at an average price of $2,574, had by far the most competitors – the small companies manufacturing what were known as "clones". Most machines sold, however, fell into the branded/non-frontier cluster. Notice the way prices start off very high (for machines enjoying both technology and brand advantages) and fall steadily as those advantages are lost.

The NBER authors apply elaborate statistical analysis to the sales of over 120 makes and models of PC in 1987 and 1988. They come to two main conclusions. First, they say, competition in PCs was "largely localised within clusters". In other words, new entrants could expect to take market share from within the cluster they were targeting but would have little impact on the sales of companies in other clusters. Spending to achieve either a technology or a brand advantage protected the companies that followed this approach against competition from less ambitious rivals.

A related point is that – contrary to conventional wisdom – IBM's loss of market dominance was not due to the flood of clones but to the loss of its status within its own cluster, as first Compaq then others invested heavily in brand marketing "and in some cases also positioning themselves at the frontier".

The second conclusion is the one that bears on the marketing/technology debate. In economists' terms: "Having a brand name conferred a large advantage in the sense of shifting out the demand function, whereas being early at the technological frontier did not."

In other words, being a technology leader protected you against competitors that did not offer such advanced products. Building a brand name not only protected you from unbranded competitors but also allowed you to sell more at any price point than you otherwise would. You could choose to use this advantage by selling more at the same price or by selling the same number of machines at a higher price. Either way, you gained.

The authors point out this finding applies only to a particular market in a particular period. But if it is more generally true, then as long as you are spending enough on technology to allow you to compete at all, an incremental dollar is better spent on a brand name than in the labs.

Before you sack the people with the plastic pocket protectors and bus in a load of marketeers with red socks, a word of caution. Brand-building is only partly about advertising. It is also about delivering on the promise the advertising holds out. That means spending on service, support and design – some of which, at least, is technology-related.

What is more, being a technology leader can itself be a powerful reinforcer of brand identity. Compaq's ability to take market share from IBM in the branded/frontier cluster was closely linked to the sense among influential consumers that Compaq had wrested technological leadership from IBM. It was not just that the machines were better; the brand was also better because Compaq was now setting the technological pace.

Still, there are some potentially powerful lessons for all companies in this study. The first is that markets may be more segmented than you think. This has its good side – providing more scope for raising prices, for example, than if you are subject to competition from adjacent clusters – but it also has drawbacks. You may find yourself confined to a small and unprofitable cluster, unable easily to break out into the lucrative clusters next door.

The second lesson is that technology spending is most valuable when it establishes a clear distinction between your product and its rivals; and when it can be exploited effectively to reinforce the brand proposition. If it is not contributing in these two ways, it deserves close scrutiny.

And the third lesson is that creating a true brand is one of the most powerful things any company can do to enhance its market power. We knew this already, of course – but now we have a load of equations to prove it.

**Market segmentation and the sources of rents from innovation: Personal computers in the late 1980s. Working Paper 5726. NBER, 1050 Massachusetts Ave, Cambridge, Massachusetts, 02138, USA. Fax: +1-617-868-2742*

BOOK REVIEW · Sir William Nicoll

THE CASTLE OF LIES: Why Britain must get out of Europe
Christopher Booker and Richard North. Duckworth, 244pp, £8.95

Flawed exposé of EU nonsenses

This latest offering from the Booker-North team continues its unique service to the construction of the European Union. In the absence of effective scrutiny of EU legislation, Booker and North expose some of the nonsenses of drafting and enforcement.

Their credo is that a "System" called "Brussels" imposes on member states and their businesses a bureaucratic framework which is divorced from the real world. The UK compounds the disaster by applying these unrealities with unique ingenuity and determination.

Even if the Brussels "System" is not wholly responsible for the mess which the national implementers make of things, it starts the whole process. The solution for the UK is to "get out of Europe" as the book's subtitle puts it – then there will be nothing for Whitehall to foul up.

The catalogue of silliness should be Christmas reading for all practitioners – even though they are beyond redemption, according to the authors. But the service Booker and North render would be improved if they had the faintest notion of how "Brussels" works.

They would not be obsessed by such fantasies as officials in DG II (the directorate general for economic and financial affairs) who are determined to "push through" a new company law on takeover bids, among the "diktats passed down from Brussels". Commissioners and their officials cannot dictate Union law.

That small band of fans of the Economic and Social Committee – the consultative body which represents workers, employers and lobbies such as farmers and the professions – will be surprised to find it elevated to a status second only to the Committee of Permanent Representatives. Students of European affairs will likewise be surprised to learn that the Union consists of four pillars: the three communities and the common foreign and security policy.

Such "amateurish inaccuracies" (in Booker-North language) sap confidence in the authors' judgments. But the fundamental weakness of the book is the new airing it gives to the authors' uncovering of conspiracies among "mad officials" (the title of an earlier book).

The "torrent" of laws coming out of Brussels divides into two streams, uncharted by the authors. One consists of policy innovation and major application measures. None of that is "imposed" on the member states or dictated by "Brussels". It must be approved by the Council of Ministers which gives governments of member states the opportunity to filter it.

The other stream is made up of directives (rare) and regulations (frequent) enacted by the Commission under the powers it has been given.

The vast bulk of these regulations concerns the management of the organised agricultural markets. If you have organised markets (and whether you approve of them or not is a different question) you have to manage them day in, day out. There can be no question of parliamentary scrutiny. There is not time and the information is market-sensitive.

If these and other decisions over the allocation of funds and on competition issues are excluded, the Commission adopted just one directive (technical adaptation concerning satellite communications) and 11 regulations in 1995. Six of the latter were for provisional anti-dumping duties, subject to confirmation by the Council of Ministers.

To Booker and North, ministers are puppets and rubber-stampers, manipulated by power-hungry officials.

Agenda papers sent to ministers before meetings in Brussels and the briefs for cabinet committees include both the humdrum stuff and the key issues of the Community. Booker and North quote Lord Callaghan recalling the time he spent as foreign secretary in the 1974 Labour government debating canned fruit salads. (True: how many cherries in the tin before it stops being salad?) Garret FitzGerald, when he was Irish foreign minister, was so meticulous that he would even add up the columns in statistical annexes to see if the sums were right.

The truth is that national officials in Brussels are under the spotlight and under close political control. I twice went beyond my briefs as the UK's deputy permanent representative. Once it was a conscious, calculated risk and came out right. The other time, a misreading on my part properly earned a sharp rebuke. My advice to newcomers in the permanent representation was to watch their rears.

Booker and North predictably invoke Kafka, Orwell and Burke. But they miss Burke at what for them is his most apt, and for us is a timely reminder: "The age of chivalry is gone. That of sophisters, economists and calculators has succeeded; and the glory of Europe is extinguished for ever."

The author was director-general of the Council of Ministers between 1982 and 1991. The Castle of Lies *is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK*

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Translation may be available for letters written in the main international languages.

Route to motoring in harmony

From Mr Karl E. Ludvigsen.

Sir, Observer commented cogently on the way in which Bob Lutz as president at Chrysler agreed to work under Bob Eaton as chairman and thereby helped build one of the most effective auto-company management teams of the 1990s ("Motoring on", December 11). Surely there must be a lesson here for the Daimler-Benz supervisory board in the run-up to the company's January 23 meeting concerning the proposed merging of Mercedes-Benz with D-B?

With an astonishing and revolutionary series of innovations, Mercedes' Helmut Werner has proved himself a first-class product man in the Lutz style. Yet he seems to be the older manager whom D-B chairman Jürgen Schrempp would like to see derailed so Schrempp can be in sole command of a re-merged company. It will be the responsibility not only of the supervisors but also of Schrempp himself to find a Chrysler-like solution that can keep two capable and complementary drivers at the wheel of Daimler to help it motor strongly through a critical period of change.

Karl E. Ludvigsen,
chairman,
Ludvigsen Associates,
73 Collier Street,
London N1 9BE, UK

Senator ably qualified for the job

From Mr Christopher Dreyfus.

Sir, While in Washington last week, I was astonished to read Jurek Martin's analysis ("Clinton team short on global vision", December 6) of President Clinton's new foreign policy team. I do not know in which circles he moves, but comments such as "short on vision", "disappointment" and "dissatisfaction" made me wonder if I was in Washington at all.

His comments about Republican Senator William Cohen were rather odd. Acknowledging that "he knows defence well as a longstanding member of the Senate's armed services and intelligence committees", he nonetheless added that "his reputation rests more on a handful of spy novels he has written than learned dissertations on defence theory" – as if that were some panacea for attaining high office. (How many of those who eventually became secretary of defence could Mr Martin name as having achieved such a reputation?)

The point is that Senator Cohen was chosen not for the spy novels he's written, nor for his dissertations on defence theory, but for his reputation as one of Capitol Hill's most knowledgeable and experienced members who has spent 24 years in Congress. It should be noted that his experience also includes the chairmanship of the subcommittee on sea-power, and he is a member of the air/land subcommittee, the subcommittee on strategic forces and the subcommittee on readiness. He also brings his vision of the reforms required to give forces a range of options regarding flexible responses and greater mobility.

Christopher Dreyfus,
Flat 3,
90 Onslow Gardens,
London SW7 3BS, UK

Vertical rather than horizontal integration

From Mr Mark Moran.

Sir, I was surprised to see Lex refer to the integration of brewers and public houses as a form of horizontal integration ("Trouble brewing", December 10). Such integration represents an amalgamation of different stages of the supply chain.

As such, it represents a form of vertical integration requiring different benchmarks to measure its market power and economic size.

Mark Moran,
47 Wellington Buildings,
Wellington Way,
London E3 4NA, UK

When safe is not wholly safe

From Mr Peter Rowbrey-Evans.

Sir, Your leader "Of genes and faked beans" (December 6) uses the argument that if a government authority considers something entirely safe for people to eat, it must be entirely safe to eat; and, consequently, any reluctance to eat the product is due to inadequate public education.

Have we learnt nothing from the BSE fiasco? Did not the government and its scientific advisers originally reassure the country that beef was entirely safe to eat, but are now not so sure that it was.

Because I am privileged to be reasonably well educated in general science and mathematics I realise that when a government representative says something is safe, what is meant is that there are considered to be no significant indications to the contrary. It does not mean something is in fact safe. By not labelling all products containing, or possibly containing, genetically-modified food the public are being denied a key choice.

On seconds thoughts, your leader was right: there should be better public education, but by school teachers and not by certain politicians and industrialists.

Peter Rowbrey-Evans,
30 Lymington Road,
West Hampstead,
London NW6 1HY

Oxford already showing management studies commitment

From Mr A Hopwood, Mr R Knight and Mr C Mayer.

Sir, In their article "Dons in high dudgeon" (December 7/8), Richard Wolffe and Della Bradshaw describe how the Oxford School of Management is currently sited in the Radcliffe Infirmary. What they do not mention are the extensive facilities available to management students at Oxford both within the Radcliffe Infirmary and at Templeton College. Within the Radcliffe Infirmary, the university has created a suite of lecture, seminar, IT and common rooms, incorporating some of the most advanced teaching facilities, specifically dedicated to MBA students. Other postgraduate students and executives on short courses have access to high quality teaching and library facilities at Templeton College, which is set in a tranquil 37-acre wooded site.

This is part of a carefully planned development involving the establishment of the new MBA and postgraduate research degrees prior to a move to the new business school in the centre of Oxford, and the expansion of the thriving Oxford executive education programmes at Templeton College. The university and the college are investing substantial amounts in the provision of these facilities which is indicative of their commitment to the further development of management studies at Oxford.

Anthony Hopwood,
director of the Oxford MBA,
Rory Knight,
Dean of Templeton College, Oxford,
Colin Mayer,
acting director,
School of Management Studies,
University of Oxford, UK

COMMENT & ANALYSIS

FINANCIAL TIMES
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Dublin à la carte

Proliferating clichés about hours of truth and moments of decision are the surest indicator that Europe's interminable constitutional debate is reaching another climax. In fact the endgame is not tomorrow's European Union summit in Dublin but June 1997 in Amsterdam – the deadline the leaders have set for wrapping up their intergovernmental conference (IGC). But thanks to the efforts of the Irish presidency, the debate is at least taking shape.

Two broad observations occur. First, the EU is at one in its wariness of sweeping constitutional change so soon after the Maastricht ordeal.

The Irish sketch for a revised treaty reflects a modest consensus on the need to oil the EU machine: strengthening foreign policy via the council secretariat, for example, and enhancing Commission powers in trade negotiations. Proposals for entirely new areas of common action – such as employment – are gesture politics. And despite differences over extending EU powers to the sensitive area of immigration, member states should be able to unite on related questions such as co-operation against crime.

Second, great uncertainty still surrounds the issue that was supposed to be the central purpose of the IGC: reforming the EU's institutions to prepare them to take in members from central and eastern Europe.

Sensibly enough, voting weights and the veto have been left to the horse-trading in the IGC's final stages next year. Nevertheless, reform is essential if the EU is not to grind to a halt after enlargement. At a minimum that will mean a shift of voting weights to safeguard the position of the bigger member states; some expansion of areas covered by qualified majority voting; a streamlining of the Commission; and an effort to clarify in which policy areas a more flexible approach to integration might apply.

The letter subject is particularly contentious, but it ought to be possible to devise rules permitting some member states to move faster without infringing the rights of others. The question is whether groups of states should be able to use central institutions such as the Commission – as distinct from the looser structures of intergovernmental co-operation – for activities which do not involve the union as a whole. The overriding imperative must ba to avoid an *à la carte* approach to the single market.

These issues need to be addressed soon if the IGC is to be completed next year – as it must be to avoid becoming tangled up with decisions on monetary union, and creating an almighty Euro-muddle.

There is one big problam. Serious institutional negotiations cannot be joined while one member – Britain – refuses to contemplate any extension of majority voting. Hence the June 1997 deadline, conveniently after British elections that must be held by May.

The party that wins, provided it is not in the hysterical frame of mind currently afflicting Mr John Major's Conservatives, ought to be able to agree to much of the agenda now on the table. The hope must be that whoever is prime minister will see the sense of quickly doing a deal and allowing Europe to get on with more important business.

Paying the price

In censuring Mr David Willetts, the paymaster general, the House of Commons committee on standards and privileges has taken a small step towards restoring confidence in parliament's capacity for self-regulation. Of itself, however, this is not enough to persuade a sceptical public that MPs are to be trusted to sit in judgment on their peers.

The committee, a creation of Lord Nolan's investigation into standards in public life, intimated that Mr Willetts, then a junior whip, had improperly sought to influence an investigation into a fellow Tory MP. Its report does not accept his evidence as "accurate". Dissembling had substantially aggravated the original offence. Voters may conclude that while the MP's action owed much to naivety his explanation owed more to sophistry.

Many Conservatives consider this verdict harsh. The charge against the paymaster general dated from a time when he was new to the whips' office. Inexperience and eagerness to please clearly played their part. Nor is Mr Willetts, cleverer than he is streetwise, among those whom one might associate with the charges of sleaze which have so damaged the reputation of the House of Commons.

There is, though, a danger in such mitigation. The very fact that colleagues suggest his only crime was to get caught is evidence of a damaging complacency about the proper conduct of MPs. That Mr Willetts was far from alone in thinking it was acceptable for a party whip to intervene in a quasi-judicial investigation is hardly a justification for his actions. Wrongdoing cannot be condoned because it is widespread.

This is also a particularly important moment for parliament. Public faith in its integrity is at a dangerously low ebb. If the post-Nolan system is not seen to work, demands for judicial oversight of MPs will become unanswerable. For this reason, Mr Willetts is wise to accept he should pay a price for his misdemeanour. It would have been better had the committee suggested such a penalty. Sadly its commitment to a cross-party consensus did not extend that far.

So it was up to the paymaster general. His resignation from the government shows there is still some honour in politics. Incidentally, it should also facilitate his speedy return to the Conservative front benches after the general election.

Facing the past

The draft declaration published by the German and Czech governments this week is intended to draw a line under their traumatic past. Its focus is on the Sudetenland, the formerly German-settled borderlands of Czechoslovakia which were invaded by Hitler as the first act in his occupation of the entire country. Until now, all attempts at reconciliation over the disputed territory had failed to produce agreement on the treatment of embittered former inhabitants who were expelled after Germany's defeat.

The agreement, which took two difficult years to draw up, is a compromise which fully satisfies neither side. The problem is that many Czechs feel little desire to apologise to the successors of a state whose army crushed their new-found independence in 1938. On the other side, many politically influential Sudeten Germans, forced to abandon their homes and farms in 1945, continue to demand compensation and the right to return. Behind Czech doubts lie deeper fears over their ability to preserve the identity and independence of a small Slav country on the borders of German-speaking Europe.

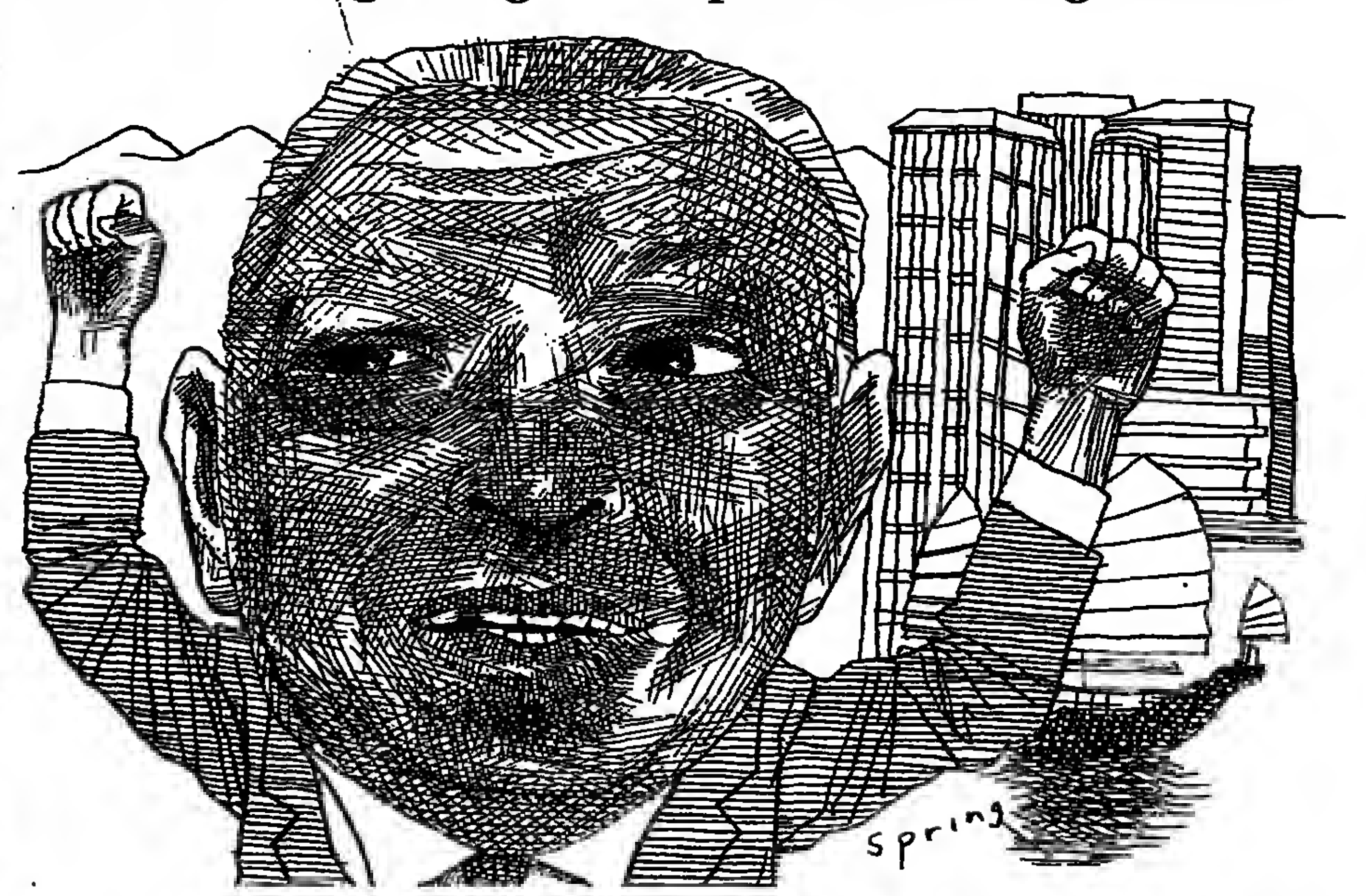
But the deal should be seen in a broader context. The cold war accelerated the integration of a defeated Germany into Nato and encouraged it to become a founder member of the European common market. In this way former enemies came to terms with their recent past and built a more peaceful and co-operative future. Central Europe had to wait until the end of the cold war before its fragile new democracies could start to confront the bitter legacy left by both Nazi and Soviet occupation.

The post-war borders drawn at Yalta and Potsdam have remained broadly where they were. Reluctance to re-open a Pandora's box of competing territorial claims is partly prudence. But it is also one of the most positive consequences of central Europe's desire for full integration into both Nato and the European Union. The western institutions are right to insist that aspirant members persevere with painful reforms and resolve often deep-rooted animosities with their neighbours to qualify for entry.

The German-Czech agreement is part of that process. Whatever the lingering opposition, both parliaments should ratify the agreement. It is not perfect, but it is a milestone on the path to reconciliation.

Into uncharted territory

John Ridding looks at the daunting challenge facing the shipping tycoon selected as Hong Kong's first post-colonial governor



Frowning beneath his distinctive grey crew cut, Mr Tung Chee-hwa, the shipping tycoon, dismisses Hong Kong's doubters. "No one ever won by betting against Hong Kong," he says. "We have faced many crises and been written off many times. But each time we have come back stronger."

This time, the cards are in his hands. Selected yesterday as Hong Kong's first post-colonial governor, Mr Tung will be in charge of the territory after its return to Chinese sovereignty next July. As chief executive – as the next governor will be known – he will determine whather Hong Kong retains its prosperity and dynamism after Britain relinquishes its most important remaining colony.

It is a daunting challenge. The shift from capitalist to communist sovereignty is unprecedented and is mada more difficult by a legacy of mistrust between Britain and China. Shipping was easier, says Mr Tung, even though he spent much of the early 1980s wresting his group from the brink of bankruptcy.

But politics is new to the shipping tycoon, and there is limited time to learn. "The first year is essential," he says. "We must build a strong executive-led government by winning the confidence of the people of Hong Kong and the trust of Beijing."

That will not be easy: Mr Tung must establish his authority with Beijing while critics in Hong Kong question his ability to stand up for the autonomy promised to the territory in Sino-British handover treaties.

The Democratic party, the largest group in the territory's elected legislature, warns that Mr Tung's appointment by a 400-member electoral college dominated by business leaders and pro-China political figures threatens to bind him to Beijing. Ms Emily Lau, the independent legislator, points to mainland funding of a 1980s rescue plan for Orient Overseas, Mr Tung's family-owned shipping group, as proof of his debts to China.

"He is very conservative politically and will not be able to stand up to China," Ms Lau predicts. That matters, his detractors say, because failure to uphold the territory's freedoms and institutions will undermine public confidence and sap the entrepreneurial spirit which drives its economy.

Mr Tung readily admits his conservative political instincts. An admirer of Mr Lee Kuan Yew, Singapore's paternalistic elder statesman, he says democracy in Hong Kong should proceed one step at a time. Although he supports the ultimate objective of universal suffrage for the territory's legislature, he wants a gradual timetable. "Order and stability create prosperity," ha says.

The shipping chief has also signalled his agreement with Beijing on sensitive issues of sovereignty. Organisations that support independence for Taiwan and Tibet, he says, will not be welcome in post-1997 Hong Kong. In recent weeks he has stressed traditional Chinese values and the importance of citizens' obligations as opposed to rights.

But Mr Tung dismisses claims that he is in hock to Beijing, and he pledges to protect Hong Kong's interests and freedoms.

"We have to preserve our lifestyle," he says. "That is the responsibility of the chief executive. That means freedom of thought, freedom of capital and freedom of the press." The rule of law will be maintained, he promises, as will the battle against corruption, one of the main concerns in Hong Kong ahead of the handover.

He says his emphasis on co-operation with China does not mean surrendering autonomy. "Quiet negotiation does not mean weakness. Of course there will be disagreements. The question is how you resolve them, and confrontation is rarely effective."

Behind such views lies a belief in the identity of interests between Hong Kong and China. As the mainland's largest trading partner and its principal source of capital and expertise, Hong Kong's continued success is vital to China, Mr Tung argues. This, he says, gives weight to Beijing's pledge to honour the territory's autonomy.

Along with co-operation, Mr Tung places great store in stability. "This is the absolute priority," he says. Thus he plans to retain top civil servants and calls for continuity in economic policy. He backs Hong Kong's low level of taxation, its tradition of small government and the fixed link between the Hong Kong dollar and the US dollar. Political disputes ahead of the handover, he argues, have distracted the territory from the rising challenge of rival regional business centres from Singapore to Shanghai.

There is broad support for these views across the local business community. "He understands what makes this place tick," says Mr Henry Tang, chairman of the Federation of Hong Kong Industries. According to his backers, Mr Tung also strikes a chord with the public at large.

"Right now, most people are mainly concerned with stability," says Mr Tsang Yok-sing, leader of the pro-Beijing Democratic Alliance for the Betterment of Hong Kong. He argues that Mr Tung is "a broadly popular" leader, pointing to recent opinion polls which gave him a clear lead over his two rivals.

Despite the polls, Mr Tung's grass-roots support remains questionable. He lagged far behind Mrs Anson Chan, the respected head of the civil service, until she withdrew from the contest last month.

But perhaps more important in steering the territory through the transition will be his ability to reconcile differences between Hong Kong, London and Beijing and to defuse any crises which erupt during the transition. In this respect, Mr Tung scores highly. "The priority will be to broker agreements," says one western diplomat. "That requires skill and it requires connections. Mr Tung has both, on both sides of tha border."

Tung Chee-hwa

- 1937 Born in Shanghai
- 1949 Family moved to Hong Kong. Educated in China, Hong Kong and the UK
- 1968 Returned to Hong Kong after living in the US for 10 years, where he worked for General Electric and the family shipping business
- 1982 Took charge of Orient Overseas on the death of his father and founder of the group, Mr Tung Chao-yung
- 1985 Orient Overseas suspends payment of its loans
- 1986 Financial restructuring, including an investment of US$120m, partly backed by China
- 1992 Appointed Hong Kong affairs adviser by China
- 1992 Appointed to Hong Kong Executive Council by Mr Chris Patten, governor
- 1993 Appointed to the Eighth Chinese People's Political Consultative Committee
- 1995 Appointed vice-chairman of the Preparatory Committee, the Beijing-appointed body overseeing the handover
- 1996 Steps down as chairman of Orient Overseas (November)
- 1996 Wins majority in preliminary ballot for post of chief executive

Coaxed into sparing some of his business time to join the inner cabinet of Mr Chris Patten, the present and last British governor, the shipping chief is a familiar and respected figure among officials of the present administration. A member of the territory's powerful Shanghainese business community, he is also well connected with the territory's influential tycoons.

In Beijing, Mr Tung's standing was signalled by a handshake with President Jiang Zemin earlier this year. His education in the UK and his business ties in the US have helped win supporters on both sides of the Atlantic. "He is a man of great integrity," says Mr Winston Lord, US assistant secretary of state and a family friend.

Colleagues refer to Mr Tung's calm in a crisis and his ability to forge consensus. "He never lost his cool," says Mr Harry Wilkinson, chief financial officer of Orient Overseas and head of the banking syndicate exposed to the company's borrowings during its battle with bankruptcy. "His efforts were a big factor in getting agreement."

That experience should help in the challenges ahead. So will other cards the tycoon has to play. Perhaps most important is the backing of Mrs Chan, who seems set to remain in her post. Public confidence also appears steady. The stock market has surged to record highs in recent weeks, while property prices are rebounding after the fall of 1994-95.

Confidence, and Mr Tung's mettle, will soon be tested. The most immediate challenge will come with the formation of a provisional legislature to replace the existing elected Legislative Council.

Beijing's plan for the new body, which is due to be formed this month, has drawn strong opposition from Britain and provided a rallying cry for the territory's democratic politicians.

The prospect of rival legislatures raises the spectre of confusion and division at the most sensitive time of the transition and is sure to create friction between Mr Tung and the outgoing administration. Mr Patten yesterday pledged to co-operate with the chief executive designate, but this will not extend to the provisional legislature.

"It is a very difficult issue," says Mr Tung, who rues the failure of Britain and China to agree on a legislative "through train". He supports the provisional body, he says, because Hong Kong can ill afford a legislative vacuum during the transition. But he admits he sees no solution to the Sino-British stand-off.

Other problems are stacking up. China plans to amend the territory's Bill of Rights, while Beijing and London are at odds over proposed legislation on subversion, which will set tha limits for freedom of expression.

Similarly pressing is the need for him to establish lines of communication with Beijing to ensure he is not overshadowed by China's representatives in the territory. Senior officials from the military, the government and Communist party will be in Hong Kong after July. All are more experienced in playing the Beijing power game.

Less predictable, but no less important, will be attempts to interfere in Hong Kong business by provincial and middle-ranking mainland officials. "The real threat does not lie in Beijing," says one adviser to the mainland government. "It lies in the day to day battles with the officials and businessmen who will be wanting a piece of Hong Kong's action."

The future chief executive's reputation among his peers provides some reassurance, as does the steady hand he displayed in the shipping crisis of the 1980s. But both will be severely tested in his next mission.

OBSERVER

Trapped in Brussels

■ These are testing times for tough-talking EU environment commissioner Ritt Bjerregaard, best remembered for her threat last year to publish a "meet-and-tell" diary revealing sordid truths about political life in Brussels. The former Danish politician has the delicate task of explaining to the powerful green lobby why the Commission's efforts to ban inhumane animal trapping are in such a mess.

Earlier this week environment ministers threw out a carefully crafted deal struck between Commission negotiators and the Canadians and Russians, two of the biggest trapping nations. Kind-hearted ministers decided the EU had made too many concessions and ordered Bjerregaard to withdraw the offer. The furry-friends lobby now wants to know why Bjerregaard – who likes to wear her green credentials on her sleeve – gave so much ground in the first place.

Problems are brewing on another front too. Bjerregaard has fired three members of her cabinet, including the sole non-Dane in her entourage, thereby flouting the Brussels convention that commissioners employ at least one "foreigner". Word has it that she plans to get round the problem by offering a job to a Brit who also holds Danish nationality and speaks with a strong Danish accent. Ah, the art of compromise.

Cheap talk

■ Even the persuasive powers of Yves-Thibault de Silguy, the EU's crusading monetary commissioner, are not enough to convince his countrymen that a single currency is a good idea.

At the start of a French radio debate this week between De Silguy and Jean-Pierre Chevènement, the anti-Emu former defence minister, listeners were invited to indicate whether or not they supported monetary union. The result: a resounding 87 per cent *non*. After an hour of debate, a further telephone poll found De Silguy had reduced the antis to 79 per cent. Give De Silguy another nine hours and perhaps he could have persuaded the rest. Then again, after a few more hours of talk about Emu, perhaps listeners would say *oui* to anything.

Family fortunes

■ Celebrations all round yesterday for Hong Kong's Tung family. Not only was Tung Chee-hwa named as the first post-colonial leader of Hong Kong, but shares in Orient Overseas – the shipping group chaired by Tung until October, when he passed the reins over to brother Chee-chen – leapt nearly 7 per cent on the day.

This curious increase, against the run of a falling Hang Seng Index, swelled the beneficial interests of the two Tung brothers and their brother-in-law Roger King by nearly HK$19m each. The family trust which controls 200m shares saw its value increase HK$77m, making a total paper profit for the family of HK$134m. The gain is all the more perplexing given CH Tung's endeavours to extricate himself from business in order to concentrate on his political ambitions. Could there be cynical investors out there who don't really believe in the separation of powers?

Thin air

■ Yesterday's strike by public sector unions did not dampen spirits at Madrid's Barajas airport, where services actually seemed to improve. Stoical travellers have endured delays at Barajas for weeks – the official excuse is air traffic congestion – with chaos on Tuesday night when a construction crew drilled into a 15,000-volt cable. The resulting short circuit caused a four-hour suspension of services.

Those lucky enough to get through yesterday to the airport's inquiry lines were told that services were almost back to normal despite the strike. Tha only hiccup was another brief blackout which led to passengers on one transatlantic flight checking in by candlelight. Delays on domestic flights averaged a mere half-hour.

Ordering an investigation into Tuesday'a breakdown, development minister Rafael Arias-Salgado described Barajas's emergency services as "a joke". Locals point out that the airport is named after a nearby village which can be loosely translated as "you mix up".

Over the hump

■ The Arab world has a new superhero in the shape of Camel Zarif, a cartoon character described by his creator as music loving, with overgrown nostrils and twinkling eyes. The one-humped ruminant was chosen from more than 250 entries in a competition organised by the Arab Council for Youth and Development. "The camel symbolises patience, intelligence, kindness, goodness and resistance," says his creator Abdel Salam, a graduate of the cartoons department at Cairo University. Move over Ninja Turtles.

The Financial Times

100 years ago

An Impertinent Demand
The compositors of Monte Video have been indulging in e strike, and so far as we can gather thay commenced operations in a very characteristic way. They circularised the employers informing them that the association has sanctioned a general increase in salaries varying from 12 to 30 per cent. Strangely enough, this "sanction" was not recognised by the masters, who arrived at the conclusion that to yield to this impertinent demand would be a fatal submission of authority and would place their establishments at the entire mercy of the operatives. As a result of this dispute the "Monte Video Times" and other papers were compelled to suspend publication.

50 years ago

Silver Floods U.S. Market
The U.S. silver market is being called on to take large blocks of foreign metal at a rate greater than it can absorb. Foreign silver is being offered here even though the metal commands higher prices in other markets, apparently because the sellers want the dollars. Offers of silver are coming from Spain, India, China the Near East and London. Russian silver, too, is on the market in the U.S.

FINANCIAL TIMES
Thursday December 12 1996

Shell may spend $10bn in Gulf of Mexico

By Robert Corzine in New Orleans

Shell Oil, the US arm of the Anglo-Dutch petroleum group, has lined up nine deep-water oil and gas projects in the Gulf of Mexico and is prepared to spend up to $10bn developing them.

The investment would represent one of the Shell group's larger development programmes.

The US subsidiary's recent success in finding and producing large quantities of oil and gas in water depths approaching 5,000 feet has greatly reduced the risks attached to such initiatives, according to Shell Oil executives.

The company wants to begin work on the nine projects before 2001. Three involve the construction of big surface platforms similar to those at the Auger and Mars fields and the Ursa field, which is under development.

"There will be lots and lots of activity and lots of dollars spent here," said Mr Jere Brew, head of planning and finance at Shell's deep-water division in New Orleans. Output from Shell's current and medium-term deep-water developments would soar in the next five years and would rival Shell Oil's current output from all its onshore and shallow-water fields.

"In effect we will create a whole new business that will be the same size as Shell Oil's present exploration and production business," he added.

The deep-water fields now in production represent a small proportion of Shell Oil's total output of less than 300,000 barrels of oil equivalent a day, a figure that includes natural gas. But the company predicts new deep-water production will lift that figure above 500,000 barrels a day by 2001.

Shell executives say the company's rapid build-up of large platforms in deep waters more than 100 miles offshore could also make it a leading provider of lucrative deep-water infrastructure services for other oil companies.

Shell Oil, which retains a strong US identity despite being wholly owned by Royal Dutch Shell, says the decision on whether to go ahead with the development programme will be made in the US. But it is likely to be supported by the parent group, which has failed in recent years to replace reserves with new finds.

Shell Oil, whose financial performance slumped in the early 1990s, has been buoyed by the success of its developments at the Auger and Mars fields, both of which have performed well above expectations. The former was originally intended to produce 45,000 b/d, but its highest rates to date have been almost double that, and work is under way to achieve 100,000 b/d.

Mars, in which British Petroleum holds a 28 per cent stake, began producing in July. Output will reach 60,000 b/d by the end of the year. It is expected to rise to the official capacity of 100,000 b/d in the first half of next year, although Mr Bob Markway, Mars asset manager, says output could rise substantially above that figure in the course of next year.

USAir reinforces attack on British Airways

By Michael Skapinker in London

USAir said yesterday that British Airways should be required to dispose of its 24.6 per cent stake in USAir as a condition of gaining US government approval for its alliance with American Airlines.

In a letter to Mr Federico Peña, the US transportation secretary, Mr Stephen Wolf, USAir's chairman, said the conditions the UK government laid down last week for its approval of the BA-American alliance were "completely inadequate".

The letter is the latest in a series of attacks against BA by USAir since the BA-American alliance was proposed in June.

USAir has said that it will terminate its own three-year-old alliance with BA in March. It has launched a legal action in the US against the link between BA and American.

Mr Ian Lang, the UK trade and industry secretary, said last week that BA and American could escape a referral to the British Monopolies and Mergers Commission if they gave up 168 take-off and landing slots at London Heathrow airport.

The slots would have to be used by competitors on UK-US routes, where BA and American account for more than 60 per cent of flights.

Mr Lang said BA and American would have to ensure that other airlines would be able to compete with them on flights between London and Dallas and between London and Boston.

He also said BA would have to undertake not to inhibit USAir from competing on transatlantic routes.

Mr Wolf said the UK proposals would leave BA and American with an advantage competing airlines would be unable to overcome. "USAir alone requires half the total number of slots proposed by UK officials", he said.

USAir has applied to the US department of transportation to be allowed to operate flights between Heathrow and Boston, Charlotte, Philadelphia and Pittsburgh.

Mr Wolf also rejected the idea advanced by BA that competitors should have to pay for any slots that the UK carrier gives up.

He said: "US carriers should be provided with Heathrow slots at no cost just as foreign carriers are provided with slots at US airports at no cost. British Airways has received slots without charge at slot-controlled Chicago's O'Hare Airport and New York's John F Kennedy airport." The BA-American alliance is conditional on receiving immunity from US antitrust laws.

López

Continued from Page 1

the two companies, including a US civil suit by GM under the Racketeer Influenced and Corrupt Organisations Act (Rico), a law to fight organised crime. The FBI is also investigating aspects of the case.

In an apparent effort to counteract speculation about the future of Mr Ferdinand Piëch, VW's chairman, in the wake of the López affair, the company's supervisory board said yesterday it would renew his contract for a further six years. The contract was due to be renewed next March.

Mr López will be indicted under the German law against unfair competition, relating to "betrayal of company secrets".

Mr Günter Rexrodt, Germany's economics minister, intends to raise the dispute with US officials.

Iraqi crude

Continued from Page 1

Iraq. Mr Miller's calculations show 800,000 b/d of excess production next year, which he believes will force prices down.

As the weather becomes less of a factor buoying the market in the first quarter and stocks rise, Mr Miller expects prices for Brent crude to fall as low as $18.50 a barrel. "The whole infrastructure is beginning to weaken," he said.

However, at the other end of the scale, Mr Bogin thinks there will be some erosion of prices, but forecasts that Brent will be at $21.75 a barrel in the first quarter.

New Zealand forced to drop health reforms

By Terry Hall in Wellington

New Zealand's conservative National party was forced to abandon its controversial market-driven health reforms to secure its coalition deal with the nationalist New Zealand First, it emerged yesterday.

Details of the coalition agreement, revealed by Mr Jim Bolger, prime minister, show that both parties gave away cherished policies during two months of tough and complex negotiations after New Zealand's first elections under proportional representation.

While the basic thrust of New Zealand's economic policies remains unchanged, the agreement points to an end to experimentation in areas such as health.

Mr Bolger said the various organisations set up to manage public hospitals with the aim of making a profit were to be disbanded.

The public hospital and health reforms, designed to run the system on a commercial basis, were highly unpopular. Hospital managers claimed large salaries, but hospitals continued to run up large losses and waiting lists for surgery grew. The main requirement of the policy is that the new organisations operate "in a businesslike way".

Mr Winston Peters, leader of New Zealand First, failed to secure his promised cut in immigration. Instead, migration will initially remain unchanged, with future levels to be decided at a population conference likely to take place next year.

He was also unable to secure his party's foreign investment policies. This included a promise to buy back the Forestry Corporation for NZ$2.1bn ($1.5bn).

National agreed to an export credit guarantee scheme to help exporters. It also agreed to free healthcare for children up to the age of five; Mr Peters had wanted it up to the age of 12.

Other policy agreements will see extra spending on social welfare, child health, housing and education.

Spending is to be constrained with an extra NZ$1.2bn next year, rising to NZ$5bn by 2000.

Financial markets responded positively to the package yesterday, welcoming the commitment to restrain spending.

The changes to the Reserve Bank Act, which included widening the inflation target and setting a goal of securing sustainable economic growth, had been widely anticipated.

Yesterday, the New Zealand dollar lost about one cent to close at 66.54 on the trade weighted index, while short-term interest rates fell by 0.5 per cent. Equities approached a two-year high.

THE LEX COLUMN

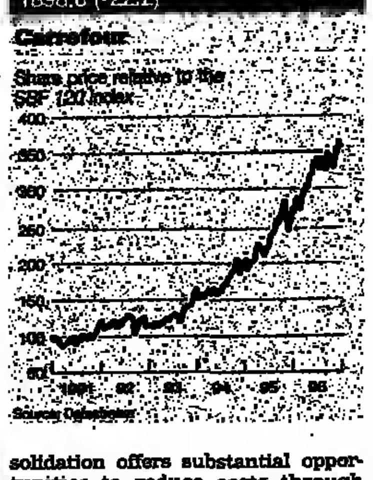
Aon a roll

Aon Corporation's merger with Alexander & Alexander Services, creating the world's largest insurance broker, is the big deal many in the industry have been waiting for. The case for consolidation in broking has long been compelling: revenue growth is sluggish at best and competition has driven margins down horribly. Moreover, with extensive overlap between the two businesses, Aon should not find it difficult to generate enough cost savings to justify the 24 per cent cash premium it is paying.

The real worry, if past deals in the industry are anything to go by, is whether this can be pulled off without losing too many good revenue-earners. After all, brokers are people businesses. And Aon certainly has a big challenge on its hands; it must not only integrate properly the Alexander businesses, but all the others it has been aggressively snapping up as well.

In the UK, shareholders in Sedgwick and Willis Corroon are obvious losers. For them, the news is a double whammy. On the one hand, the Aon/A&A deal will produce a stronger competitor in some core markets. On the other, it presumably removes two of the most likely potential predators; why now would either US company bother to buy Sedgwick or Willis? In theory, of course, the deal should step up the pressure on the two big UK brokers to negotiate their own merger. And the naws that Willis has now decided to reconsider the option is welcome. Bnt investors cannot count on it materialising.

FTSE Eurotrack 200:
1898.6 (-22.2)



Carrefour/Cora

Consolidation among France's food retailers is proceeding at break-neck speed. Just months after Auchan acquired Docks de France, Carrefour has bought one third of France's fifth largest hypermarket operator, Cora. And this could well spark a takeover of Casino by Promodes to maintain the latter's position in the pecking order.

The high price of these deals raises the fear that the process is heing driven by market share machismo. And if Carrefour fails to secure management control of Cora, its investment will look like an unjustifiably expensive means of keeping Cora out of bounds to its competitors. Yet there is a compelling commercial rationale to consolidation. French retailers have been blocked from building new stores by tough planning restrictions. Consolidation offers substantial opportunities to reduce costs through combined buying power and centralised distribution. It gives critical mass to the development of own label products. Moreover, Cora has the appeal of having very little geographical over-lap with Carrefour.

With the big bid candidates tied up, Tesco's Catteau subsidiary looks left out in the cold. Due to its small size, It was unable to build the synergies that are necessary to justify any deal. So Tesco now looks more likely to be a seller rather than a buyer of French businesses. However, that is probably no bad thing – it is doing far better witb its lower cost investments in Eastern Europe.

UK profits

Sterling's list of victims grows steadily. Barely a day passes without some anguished howl from UK plc abont the trials of a strong pound. Profit downgrades are becoming increasingly commonplace. Of course, there are winners too, notably the large importers. But given that about 40 per cent of UK company profits coma from abroad, the focus on the downside is understandable.

For all the signs of increasing strain, the worst may still lie ahead. The first problem is anomalies: some companies have had their earnings downgraded, with the share price subsequently underperforming. Other similar stocks have escaped downgrades. In some cases tha market has made the requisite adjustment, but there remain a number of outliers. The more serious issue is that downgrades hava mostly affected 1996 earnings forecasts when the real impact may be felt more next year. Given sterling's undistinguished history, it is not surprising that analysts hava only recently come to accept thet current levels may be sustainable. But companies have not helped hy saying little about the impact on 1997 earnings. With a host of year-end trading statements due in the coming weeks, this is likely to change. Companies will probably need to massage profit expectations down, in soma cases dramatically. Of course, industry trends and domestic growth rates will ultimately affect profits more than currencies. But it is a fair bet thet we have only heard the first chapter of the sterling story.

UK buy-backs

Here is a mystery: in October, the UK government effectively removed the tax attraction of share buy-backs, but left thet on most kinds of special dividend intact. Yet companies are apparently pressing on with distributing surplus capital through buy-backs regardless. To take just two examples: Severn Trent plans to hand out £300m through a buy-back, and PowerGen recently spent £200m this way.

To understand why this is so peculiar, imagine a typical company with 50 per cent of its shares held by tax-exempt institutions. If the company distributes, say, £200m in surplus capital through a special dividend, tha institutions should also get £25m in tax credits from tha government. If on the other hand it takes the huy-back route, they get nothing. So in effect, the buy-back means letting £25m of shareholder value disappear down the drain. To be fair, the net figure is probably less extrema in some cases – for instance because of a low proportion of institutional investors or a large number of individual shareholders paying higher-rate tax. But this makes buy-backs a hit less wasteful. It does not make them the right option.

So why are companies doing them? There is an obvious explanation: that managements like the juicy increase in earnings per share which buy-backs generate but special dividends do not. Yet this effect, which is simply cosmetic, is no excuse for wasting shareholders' money. They should be saying so loud and clear.

Additional Lex comment on Airtours, Page 20

FT WEATHER GUIDE

Europe today

It will stay dull with patchy fog and drizzle in an area from the British Isles to the Benelux, southern Scandinavia and Russia. Night-time temperatures will be a few degrees below freezing. Day temperatures will range from -1C to 6C. The low cloud will not affect the hills and mountains in central Europe so the Alps will be sunny.

The Iberian peninsula will be unsettled with wind and rain in the south-west.

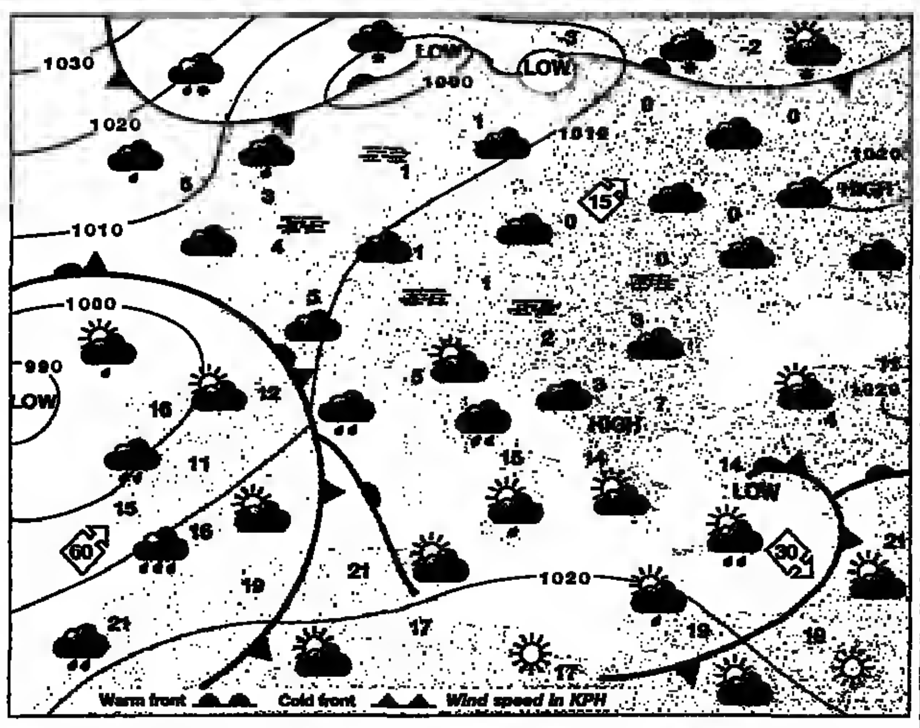
Low pressure will bring showers to Italy and southern France and thunder showers to southern Turkey and Cyprus.

Five-day forecast

The Iberian peninsula and western and central Mediterranean will stay unsettled with wind and showers.

The south-east will become dry and sunny.

North-west Europe will have some wind and rain will develop.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 5	Caracas	shower 29	Faro	rain 17	Madrid	rain 11	Rangoon	sun 32
	Celsius	Belfast	drzzl 5	Cardiff	cloudy 4	Frankfurt	cloudy 3	Majorca	fair 18	Reykjavik	cloudy -3
Abu Dhabi	sun 24	Belgrade	cloudy 6	Casablanca	shower 21	Geneva	cloudy 5	Malta	fair 17	Rio	fair 30
Accra	fair 32	Berlin	cloudy 1	Chicago	cloudy 4	Gibraltar	rain 16	Manchester	cloudy 3	Rome	shower 15
Algiers	fair 21	Bermuda	rain 22	Cologne	cloudy 2	Glasgow	cloudy 0	Manila	fair 30	S. Frsco	fair 17
Amsterdam	fog 2	Bogota	fair 18	Dakar	fair 26	Hamburg	cloudy 0	Melbourne	fair 25	Seoul	sun 4
Athens	cloudy 13	Bombay	fair 32	Dallas	sun 22	Helsinki	snow 0	Mexico City	sun 23	Singapore	cloudy 31
Atlanta	cloudy 17	Brussels	cloudy 2	Delhi	sun 23	Hong Kong	fair 20	Miami	sun 26	Stockholm	snow 2
B. Aires	fair 28	Budapest	cloudy 0	Dubai	sun 27	Honolulu	fair 27	Milan	cloudy 7	Strasbourg	cloudy 2
B.ham	cloudy 3	C.hagen	cloudy 2	Dublin	drzzl 5	Istanbul	fair 10	Montreal	sleet 1	Sydney	fair 21
Bangkok	fair 33	Cairo	fair 19	Dubrovnik	fair 13	Jakarta	rain 31	Moscow	snow -1	Tangier	rain 18
Barcelona	shower 15	Cape Town	sun 26	Edinburgh	cloudy 6	Jersey	cloudy 7	Munich	cloudy 2	Tel Aviv	shower 18
						Karachi	sun 28	Nairobi	fair 25	Tokyo	rain 12
						Kuwait	fair 25	Naples	shower 15	Toronto	rain 5
						L. Angeles	fair 21	Nassau	fair 27	Vancouver	rain 7
						Las Palmas	rain 23	New York	rain 7	Venice	drzzl 8
						Lima	cloudy 22	Nice	shower 13	Vienna	cloudy 2
						Lisbon	shower 15	Nicosia	thund 18	Warsaw	cloudy -1
						London	cloudy 5	Oslo	snow 1	Washington	cloudy 15
						Lux.bourg	cloudy 1	Paris	cloudy 4	Wellington	fair 18
						Lyon	cloudy 5	Perth	fair 25	Winnipeg	snow -4
						Madeira	rain 21	Prague	cloudy 2	Zurich	cloudy 2

FINANCIAL TIMES

COMPANIES & MARKETS

Thursday December 12 1996

Week 50

IN BRIEF

Banks in $1.3bn Italian financing

Banks completed Italy's largest private financing for an industrial project; a $1.3bn loan for the country's biggest integrated gasification and combined cycle power plant. It is the fourth privately financed power station to complete funding agreements with international banks, taking the amount raised in the past 12 months to about $3.5bn.
Page 17

Threats against Stadshypotek recede
The Swedish government appears to be backing away from implied threats to oust the board of Stadshypotek, Sweden's biggest mortgage bank, in reprisal for its acceptance of a merger offer by Skandia, Sweden's leading insurer. Ms Barbara Ericsson, the finance ministry official in charge of the sale, did not "envisage any major happenings" in the near future, in spite of earlier threats by Mr Erik Asbrink, the finance minister. Page 16

MTU München and Volvo to co-operate
MTU München, a subsidiary of Germany's Daimler-Benz Aerospace, is to collaborate with the aerospace division of Volvo, the Swedish car and truckmaker, in developing and producing aero-engine components. The two companies signed a co-operation agreement worth SKr4bn ($589m) over a minimum 20 years.
Page 17

Airtours profits show 46% rise
Airtours, the rapidly expanding package holiday company, signalled that the UK holiday market had bounced back after last year's depressed conditions by delivering a 46 per cent rise in pre-tax profits and an upbeat view of prospects for next year. Page 20

Dutch solve 'missing' copper puzzle
The Netherlands' Statistical Office (CBS) admitted that its data on the flow of copper to and from Rotterdam were flawed. Mr Jan Daamen, the CBS official responsible for re-examining the statistics, said he was satisfied this solved the puzzle about "missing" stocks of the metal that had become one of the big talking points in the industry. Page 26

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)		
Rises		
VEW	505	+ 14.5
Falls		
Allianz	2824	- 32
Altana	1226	- 15
BMW Pref	730	- 15
Degussa	580.5	- 20.5
Kali & Salz	125	- 11
NEW YORK ($)		
Rises		
Alex & Alex	17¼	+ 3¼
Jim Dunn	17⅞	+ 1⅛
Honeygrm Pymt	13¼	+ 1¼
Falls		
Cincinatus Engy	50¼	- 4⅝
Forest & Rcks	50⅝	- 2⅝
Springs Inds	42⅝	- 4⅝
LONDON (Pence)		
Rises		
Chester Wtr	165	+ 11
Stagecoach	600	+ 25
Falls		
Br Land	483	- 14½
Charming	290	- 40
Br Universal	628	- 20
N Tree Cmt	225	- 15
TORONTO (C$)		
Rises		
Canbra Foods	22.4	+ 2.0
Tolda Crown	8.3	+ 0.5
Veritas Engy	33.0	+ 2.25
Falls		
Cdn Nat Res	34.7	- 2.0
Intlmobile	37.25	- 2.75
Renaissance	44.75	- 2.7
PARIS (FFr)		
Rises		
Comp Modernes	2700	+ 66
Synthelabo	520	+ 15
Falls		
Accor	632	- 18
Air Liquide	782	- 22
CGIP	1250	- 35
SGS Thomson	331.7	- 22.3
TOKYO (Yen)		
Rises		
Nippon Fire	590	+ 15
Toshoku	530	+ 21
Falls		
Hitachi Zosen	485	- 29
Jaccs	1440	- 120
Lng Tme Cred	685	- 38
Miles Sec	575	- 35
HONG KONG (HK$)		
Rises		
Henderson Lnd	76.0	+ 0.75
HK Electric	28.45	+ 0.15
Falls		
HSBC Hldgs	159.0	- 2.5
New Asia A	32.0	- 1.4
New World Dev	48.2	- 1.8
SHK Ppt	96.25	- 1.75
BANGKOK (Baht)		
Rises		
Capital Mkt	38.5	+ 3.5
Hong Heat	40.0	+ 4.0
Siebly W	36.25	+ 2.25
Falls		
Control Ppt	85.0	- 7.0
Siam Sub	352.0	- 22.0
Singer	114.0	- 12.0

New York and Toronto prices at 12.30pm.

France's largest grocery retailer moves to forge link with Cora supermarket chain

Carrefour buys 33.3% stake in rival

By Roderick Oram, Consumer Industries Editor

Carrefour, France's largest grocery retailer, yesterday paid an estimated FFr4bn-FFr5bn ($770m-$960m) for a 33.34 per cent stake in GMB, a family holding company that controls rival supermarket group Cora, in an attempt to force the pace of consolidation in the sector.

Carrefour, which described the stake as a blocking minority, said it was in touch with the chief executive of Cora but no agreement had been reached. Mr Philippe Bouriez, the chairman of Cora and a member of tha family that owns GMB, was quoted as saying Cora "will remain independent".

Carrefour said some members of the Bouriez family had sold it their GMB shares. "Part of the family thought the future of Cora would be better with Carrefour. We could suggest some synergies," Carrefour said.

With 55 hypermarkets and 140 Match supermarkets, Cora ranks fifth among hypermarket chains and ninth among retailers. Its territory is north-east France extending into Belgium, areas where Carrefour has virtually no stores. Cora, which has total sales of about FFr35bn a year, started building supermarkets in 1969 as a franchisee of Carrefour before switching to its own name in 1975.

"The presidents of our two companies are in contact," Carrefour said, bnt added that no agreement had been reached. "The ink is still wet . . . let's give it time."

Carrefour's move is the latest in a flurry of deals among French supermarket chains. Restrained by government regulation from building many new stores, in order to protect small retailers, and beset by intense price competition, the chains are seeking growth and cost cutting through mergers. No chain has more than a 15 per cent share of the market.

In October, Promodes and Casino said they might consider an alliance and last summer Auchan, best known for its Mammouth hypermarket chain, paid some FFr20bn for Docks de France.

Carrefour gava no financial details for its Cora stake, but using the Auchan bid as a benchmark the deal could be worth about FFr4bn-FFr5bn, analysts estimated.

The manoeuvrings have left Tesco, the UK supermarket chain, in a difficult position. The Catteau chain that it acquired in northern France in 1992 needs a partner, analysts believe, and Tesco considered a link with Docks de France before Auchan pre-empted it.

Cora was also seen as a likely partner for Tesco given its size, geographic fit with Catteau, their work together in the Locede supermarket buying group, and the personal links between them.

Lex, Page 14

Centre of attraction: Tokyo Disneyland has been packing in crowds and making robust profits since it opened in 1983

Oriental Land shares soar on debut

Operator of Tokyo Disneyland rises 9.5% after public offering

By Gwen Robinson in Tokyo

Shares in Oriental Land, the operator of Tokyo Disneyland, rose nearly 9.5 per cent against a falling market on their first day's trading on the Tokyo Stock Exchange.

The listing followed a two-stage initial pnblic offering (IPO) of 23m shares by the company's two main shareholders, Mitsui Fudosan, the property developer, and Keisei Electric Railway, the private rail and bus operator.

Oriental Land is estimated to have netted Y135.8bn ($1.2bn) in the largest IPO by a private Japanese company. Half tha shares were offered at auction in November and the rest were offered at Y8,050 each this month. The shares closed at Y8,800 yesterday.

Investor interest in the listing was heightened by the Tokyo exchange's decision to allow Oriental Land to list directly on the first section of the exchange where criteria are more stringent.

It was the first private-sector company to list directly on the first section since Mitsubishi Motors in 1988. Other direct first-section listings have been limited to privatisations of public companies such as NTT.

Mr Toshio Kagami, Oriental's president, said the proceeds would partially finance a project to build another Disney-related theme park, Disney Sea, and a botel and cinema complex adjacent to Tokyo Disneyland by about 2001. While the public offering and listing exceeded many predictions, the company must still raise nearly Y200bn.

Mr Kagami warned that the company's earnings would worsen because of the opening of the new facility, interest payments and depreciation costs. Cashflow will suffer from the investment burden and analysts estimate the company's earnings per share will slip an average 1 per cent to 1.5 per cent a year. Yet after the new complex becomes fully operational, yearly earnings per sbare could grow by as much as an average 15 per cent.

Since Tokyo Disneyland opened in 1983, the first Disney theme park to open outside the US, it has been packing in crowds and making robust profits. Oriental Land, which has a market capitalisation of more than Y800bn, reported a recurring profit in the year to March 31 of Y28,076bn, np 29.6 per cent.

Its debut was one of at least 35 new listings approved so far this year by the TSE, which is believed to be considering abont 20 more applications for approval by the end of the year, compared with 32 new listings for the whole of 1995.

World stocks, Page 36

Argentaria to restructure balance sheet

By David White in Madrid

Argentaria, the partly state-controlled Spanish banking group, plans to use almost half its expected pre-tax earnings to restructure its balance sheet, in what Mr Francisco González, chairman, yesterday called a "drastic change" in accounting practices.

At the same time, Mr González, appointed by the centre-right government in May to complete the privatisation of the group, announced that Mr Francisco Gómez Roldán, head of retail banking, was being promoted to the new post of chief axecutive, assuming functions praviously performed by the chairman.

Mr Gómez Roldán, regarded as a high-flier in financial circles, joined Argentaria five years ago from Banco Bilbao Vizcaya, where he had headed the broking offshoot.

Mr Rámón Bustamante, wbom Mr González hired earlier from the Banesto group to be managing director, is being moved to become non-executive vice-chairman, retaining his responsibilities as head of a new control committee charged with overseeing internal audits.

Mr González said Argentaria would set aside Pta42bn ($323m) of its 1996 profit to reducing its costs from long-term fixed rate borrowings. This would be done by cancelling out some debts and refinancing other borrowings at market rates. The special charge, which he described as an "implicit reserve", would come out of expected pre-tax earnings of abont Pta85bn, similar to last year's.

He also announced an increase in the group's proposed dividend for 1996 to Pta277 a share from Pta270. The plan had already been approved by the Bank of Spain and the group's external auditors, Arthur Andersen, Argentaria said.

Earlier, Argentaria shares closed 1.7 per cent down at Pta5,200 in a generally lower Madrid market.

The restructuring would enable the business to "turn non-recurring profit into recurring profit," Mr González told a press conference after yesterday's board meeting. The bank said the move would lead to improved earnings in 1997.

Argentaria has already predicted a reduction in earnings this year after a 13 per cent fall in attributable net profit for the first nine months to Pta48.55bn.

Mr González said the group was focusing on the medium rather than the short term. Tha top management of the group was now fully in place, although he said he was still looking for people with new ideas in specific business areas. The new chief executive would have the task of facing up to the challenges posed by lower interest rates and technology changes.

The government is set to sell its remaining 25 per cent holding in Argentaria, but a question hangs over the timing.

Aon's deal creates world's largest insurance broker

By John Authers in New York and Christopher Adams in London

Aon Corporation of Chicago is to buy Alexander & Alexander Services of New York, creating the world's largest insurance broker, the companiea announced yesterday. The deal is valued at about $1.23bn.

The move reopened speculation that consolidation would also hit the remaining "Big Six" brokers with annual revenues of $1bn or more.

The transaction was well received on Wall Street, with Aon'a shares unchanged at $57⅛, despite sharp falls elsewhere in the market, whila Alexander & Alexander gained $3¼ to $17¼. Aon will pay $17.50 in cash for each Alexander & Alexander common share in a tender offer expected to start next week. It will also pay American International Group, the large US insurer, $317.5m in cash for its stake in Alexander & Alexander's preference shares.

The deal fits the strategy adopted by Aon during the past two years. It created an acquisitions war chest by selling two life assurance subsidiaries to GE Capital last year for $1.36bn. Two months ago it bought Bain Hogg, the UK insurance brokerage, from Inchcape for $252.9m.

Alexander & Alexander had been hurt by declining margins, and disappointed US analysts with its third-quarter profits, which were 14 cents per share against a consensus estimate of 25 cents. Its falling share price had also created takeover speculation, opening yesterday at $14⅛, barely half its high of more than $26 last year.

Mr Frank Zarb, Alexander & Alexander's chief executive, said the need for consolidation across the industry was "increasingly evident". Insurance rates have tumbled and there is a trend among small commercial buyers towards taking on more risks.

AON was not prepared to estimate cost savings yesterday, but the merger, between the world's second and fourth-largest brokerages by revenue, creates opportunities for rationalisation in the US and London. It will also lead to a strategy review at its British rival Willis Corroon, which has previously said it did not view the arguments for consolidation as persuasive.

Lex, Page 14

Hanson rules out Eastern sale

By Simon Holberton and Ross Tieman in London

Hanson, the conglomerate in the throes of a five-way demerger, yesterday ruled out a trade sale of Eastern Group, the UK arm of its soon-to-be-floated Energy Group.

Some brokers have argued that Eastern has little in common with Peabody, Hanson's US coal business, with which it is being lumped for the flotation.

But Mr Derek Bonham, chairman of the Energy Group, said there was not "a snowball's chance in hell" of Eastern being sold separately before the February demerger. "A trade sale would not do anything for Hanson shareholders," Mr Bonham said.

He was speaking after Hanson released financial information about the Energy Group which showed it had assets of £6.8bn ($11.2bn) and profits before tax of £446m in the year to the end of September.

Listing details for the Energy Group are expected to be published early in tha new year. Trading in shares of the group, valued by analysts at £3.8bn, is expected to begin in the first week of February.

The demerger of Energy will mark the final phase in the voluntary break-up of the acquisitive conglomerate assembled over 30 years by Lords Hanson and White.

Three businesses – US Industries, Imperial Tobacco and Millennium Chemicals – have already been demerged in an effort to enhance shareholder value.

The on-going Hanson business, valued by analysts at £2.1bn, will be a building materials company, seeking growth organically as well as through acquisitions. Shares in Hanson slipped 3¼p yesterday to 80p.

Mr Bonham admitted that there was not an "awful lot of logic" to putting Peabody and Eastern Group together except both were owned by Hanson.

However he defended tha combination of the businesses, claiming tbey could benefit from working together.

"We have brought together a combination of skills that, in a highly competitive world, guarantees you get to the top table," he said.

Reprisal threat to Stadshypotek recedes

By Greg McIvor in Stockholm

The Swedish government appeared last night to be backing away from implied threats to oust the board of Stadshypotek in reprisal for the mortgage bank's acceptance of a merger offer by Skandia, Sweden's leading insurer.

Mr Erik Asbrink has accused the proposed tie-up of interfering with the state's attempt to sell its 34 per cent in Stadshypotek. He expressed no confidence in the board and did not rule out calling an extraordinary general meeting of shareholders to unseat the directors.

The state's holding, carrying a market value of SKr7.5bn ($1.1bn), has until now been controlled by a state foundation, Stadshypotekskassan. The government today assumes full rights over the stake, handing Mr Asbrink his first opportunity to launch a no-confidence motion.

But Ms Barbara Ericsson, the finance ministry official in charge of the sale, said: "I don't envisage any major happenings tomorrow. I just think the shares will be transferred [to the government] and work will continue to get the highest price."

Doubts had grown over the efficacy of a no confidence motion, which would have clouded the auction process and was opposed by Sweden's small shareholders association, Aktiespararna.

Observers in Stockholm believe prospects are receding for a rival bid which would offer a substantial premium to Skandia's. The Skandia offer values Stadshypotek at SKr20.6bn, against its SKr22.7bn market value.

The government has previously stipulated that the successful applicant would be expected to bid for all Stadshypotek's shares but Ms Ericsson said yesterday this was "only a strong preference, not a prerequisite".

It has emerged that three Swedish banks – Svenska Handelsbanken, Föreningsbanken and Swedbank – had planned a joint bid for the state's 34 per cent holding in Stadshypotek. However, the consortium broke down shortly before the government's deadline last Monday for initial bids.

Nordbanken has expressed reservations over the price tag for Stadshypotek.

The government has insisted it has no rush to conclude bid negotiations but one banker close to the sale process, who asked not to be named, said: "Anybody who was serious about buying Stadshypotek within a reasonable time frame would have started negotiating with the [Stadshypotek] board and would have started due diligence by now."

Stadshypotek said it had received no contact from any eventual bidder and reiterated it was open to other offers apart from Skandia's.

Stadshypotek shares fell SKr1.50 to SKr182, while Skandia's stock was steady at SKr186.

RWE plots a victory at municipal politics

Public-sector masters must go in the interests of shareholder value, says **Michael Lindemann**

The 4,000 or so shareholders who normally attend the annual general meeting of RWE, the German industrial conglomerate, will file into an Essen conference centre this morning expecting a long day.

Green shareholders have tabled about 20 motions forbidding the company from transporting electricity from nuclear power plants across its grid. Others have demanded that all electricity cables be removed from the vicinity of kindergartens because of fears over the possible effect on children.

A subject likely to be noticeable for its absence, however, and one which may give Mr Dietmar Kuhnt, RWE chief executive, a far bigger headache than noisy environmentalist shareholders, is the 70 or so municipalities which own 29.3 per cent of the Essen-based group but control 58.9 per cent of it through their multiple voting rights.

The presence of the municipalities, which have held stakes in RWE since it was founded in 1909, means the group is perceived less as one of Germany's biggest public companies, than as a public-sector dinosaur.

The problem is not only with the voting structure. Critics claim RWE management and supervisory boards are stuffed with the former directors of municipalities who lack the required private sector management skills.

Worst of all, the municipalities' influence means that RWE is often seen as trailing Veba and Viag, the other two German conglomerates built around regional electricity monopolies. In fact it has a 1996 p/e ratio of 22.6 compared with 19.9 for Veba and 14.6 for Viag.

Getting the municipalities to cede control – something which would also help RWE in its longer-term efforts to secure a full US listing – has been tried before. Bungling it was one of the reasons that Mr Friedhelm Gieske, Mr Kuhnt's predecessor, left his job early two years ago.

However, the German government has turned its attention to the problem of multiple voting rights, urged on by the Free Democratic party, the junior partner in Chancellor Helmut Kohl's coalition government which wants more transparency in corporate governance.

Draft legislation indicates that multiple voting rights – which also affect groups such as Siemens and VEW, another utility – would be outlawed. But that raises the question of compensation.

Official talks between RWE and the Association of the Municipal RWE Shareholders (VKA) have yet to start but the two sides are lining up for a tussle.

Mr Walter Mende, who heads the VKA and sits on RWE's non-executive supervisory board, has already warned that the association will go to Germany's constitutional court if the legislation is passed as it stands.

A solution is possible, he has indicated. But buying out the VKA's multiple voting rights could cost DM2bn ($1.29bn). RWE has winced at that price although analysts say the group's very large cash flow would enable it to engineer a deal.

How the municipalities themselves will behave is unclear. "A large number say 'absolutely no way' while another element says they could really do with the money," says Mr Walter Kiwit, VKA manager.

"One thing that we have settled with Mr Kuhnt is that there will be a court case," Mr Kiwit adds. "So if we reach an agreement it will have to be able to withstand an appeal."

Doing a deal with the municipalities is part of Mr Kuhnt's broader strategy to improve RWE's focus on shareholder value, a notion Veba, its arch rival, has helped pioneer in Germany.

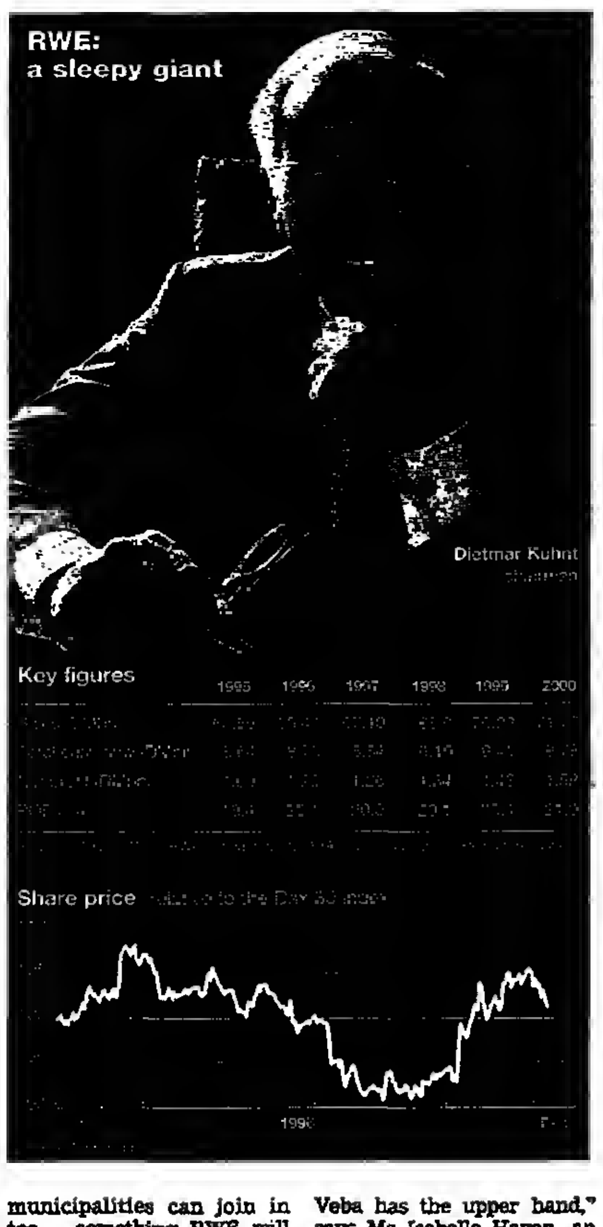
But he needs to tread carefully. International competition looms for the German electricity market, for decades RWE's core business. As others intrude on RWE's home turf, the group has to ensure the municipalities remain friendly in order to keep their custom.

The same goes for telecoms, where RWE is still negotiating an alliance with Veba and Cable and Wireless, the UK-based group. Germany's newly liberalised telecoms regime means municipalities can join in too – something RWE will want to prevent.

The Veba/C&W deal has helped lift RWE's share price since it was announced in early October but analysts say more needs to be done.

"RWE has the potential to deliver the sort of earnings we have seen at Veba but Veba has the upper hand," says Ms Isabelle Hayen, an analyst at US investment bank Goldman Sachs. "There is an explicit commitment to shareholder value at Veba."

Seeing off the municipalities would doubtless help Mr Kuhnt strengthen that commitment at RWE.



Fund set up for SE Europe ventures

By Kerin Hope in Athens

Greece's Alpha Credit banking group has launched a $30m closed-end fund to provide equity financing for joint ventures and privatised companies in Romania and other south-east European countries making tha switch to a market economy.

The Danube Fund is being managed from Athens in order to take advantage of a keen appetite among Greek companies for expansion into neighbouring markets. The first three deals approved by the fund involve a total investment of $4.5m in joint ventures in Romania by three Greek companies: a paint producer, a plastics manufacturer and a construction company building an office complex in Bucharest.

Mr Damianos Damianos Danube Fund managing director, said two-thirds of the fund's capital would be invested in Romania and that smaller investments would be made in Bulgaria, Albania, Moldova and Macedonia.

He said $15.6m had already been committed by Greek and international investors, with the remaining funds due to be raised by June 1997.

The European Bank for Reconstruction and Development will take a 20 per cent stake in the fund, making an initial commitment of $3m. The International Finance Corporation, the World Bank's private sector lending arm, has committed $2m.

Fidelity biggest buyer of Cerus' Cofir shares

By Tom Burns in Madrid

Fidelity Investments, the big US mutual fund, revealed yesterday it had been the biggest purchaser in last week's $124m sale of the controlling stake in Cofir owned by Cerus, Mr Mario De Benedetti's French holding company.

The US fund informed Madrid's stock market regulator that it had bought 4.3m of Cerus' Cofir shares, a total which represents an investmeot of $13.3m according to the sale price and accounts for 5.15 per cent of Cofir's total equity.

Cofir, which was launched by Mr De Benedetti in 1987 posted net profits of Pta1.6bn ($122m) last year.

Fidelity was the only one of 75, mostly UK-based, institutions which took part in the purchase of Cerus' 48 per ceot stake in Cofir, to inform the regulator that it had bought shares in excess of 5 per cent, the threshold for disclosures of stock acquistions.

The disclosure by Fidelity represents a significant psychological lift for Cofir at a time wheo the holding company enters a wide-ranging restructuring in its post De Benedetti era. The reorganisation will include the appointment of a new board and a new strategy to focus exclusively on drinks and hotels.

As a result of the Cerus disposal, which was co-ordinated by Schroders, the UK merchant bank, Cofir has become the most widely held company on the Bolsa with 130 institutions owning 80 per cent of its stock and the remaining equity in the hands of some 2,500 individual investors.

Mr Gabriele Burgio, Cofir chief executive said yesterday that six new members would be appointed early next year to the company's 12-member board in order to replace directors linked to Mr De Benedetti who resigned after last week's transaction.

Schroders will advise on these appointments and Mr Burgio said the new directors would be "Spaniards, high profile and known to the City so as to reflect a majority UK shareholder base". Mr Burgio's continuity was generally welcomed by the markets; "clients always found Burgio impressive and they will like him more now that he is free of De Benedetti's shackles" said an analyst at a big London securities house.

Cofir will now build up its wine and hotel companies and sell other assets. "Our strategy will be modelled on that of Bass (the UK brewing and hotel group) which we have studied closely," Mr Burgio said.

The Cerus stake in Cofir was sold last Thursday at a price of Pta404 per share. Yesterday Cofir's shares were traded at a maximum of Pta445 before easing back to Pta436.

EUROPEAN NEWS DIGEST

Bank Austria confirms bid

Bank Austria, the country's biggest bank, confirmed yesterday it would bid for control of state-owned Creditanstalt, its main rival. The decision makes more likely the creation of a powerful European regional bank from the Austrian government's efforts to privatise the country'a most famous bank.

Bank Austria said a firm offer would be made before the December 16 deadline. It is thought the offer will be at a premium to Creditanstalt's current share price of Sch719.5. The government's controlling stake in Creditanstalt is currently worth Sch14.3bn ($1.3bn). Until Bank Austria revealed its hand, the only offer for CA appeared to be a partial bid from a consortium led by First Austrian, the country's oldest savings bank, and EA-Generali, an Italian-Austrian insurer.

A merger of the two banks would create an Austrian bank ranking about 30th in size in Europe and with a 25 per cent share of the local banking market. It seems likely that Bank Austria would need extra financial support from WestLB, the German bank, and Cariplo, Italy's largest savings bank, to mount its bid.

William Hall, Zurich

GE Capital agrees loan buy

General Electric Capital yesterday agreed to buy a parcel of 127 non-performing property loans with a book value of FFr1bn ($193m) from Crédit Lyonnais via the Consortium de Réalisation (CDR), which was set up to sell the state-owned French bank's non-bank assets.

The deal, arranged by Bankers' Trust, is the first bulk property loan disposal by CDR. The price was not disclosed, but CDR Créances said recently it hoped to get about 30 per cent of the book price. CDR Créances, the property arm of CDR, is charged with selling off a total of around FFr18bn worth of Crédit Lyonnais property loans. Some 70 per cent of the loans bought by GE Capital are in the Paris region, divided equally between loans to residences, offices and retail businesses.

David Buchan, Paris

New Dutch exchange upbeat

Amsterdam Exchanges (AEX), the product of a merger from January 1 between the Dutch stock and options markets, expects Fl 10m ($5.81m) profit in its first year on a share capital of Fl 100m, the two entities told their first combined press conference yesterday. The new company, owned equally by the memberships of the two associations it replaces, intends as early as next month to issue a prospectus aimed at placing half its equity with financial institutions and listed companies.

These preference shares are to become freely tradeable after five years, at which point AEX would obtain a listing on its own board. Mr George Möller, chief executive designate, said the unification of the markets and the move to corporate status would reduce risk and give AEX a better competitive position after European monetary union takes effect in two years.

Gordon Cramb, Amsterdam

Lebanese bank raises capital

Banque Libanaise pour le Commerce, Lebanon's thirteenth-largest bank with total assets of L£620bn ($399m) at the end of 1995, yesterday completed a $60m capital increase, consisting of $40m of global depositary receipts and $20m of shares to be listed on the Beirut stock exchange. The deal was the first simultaneous domestic and overseas offering, as well as the first initial public offering of shares since the local exchange re-opened earlier this year after a 13-year closure because of the Lebanese civil war.

The deal was 3.5 times oversubscribed, a record for a Lebanese issue, which allowed the securities to be priced at $11.8, near the top of the announced range of $10-$12. The domestic shares were 5.1 per cent cheaper at $11.2.

The GDRs are listed in Luxembourg. Forty per cent were placed in the US, under rule 144a of the US Securities and Exchange Commission, which restricts sales to qualified institutional investors. Another 30 per cent went into the UK, and the remaining 30 per cent were evenly spread between Asia and continental Europe.

The new funds will partly be used to regroup BLC's foreign entities under the umbrella of the Lebanese mother company. BLC will be the first Lebanese bank to list its shares on the stock exchange. Banque Audi and Byblos Bank, two of the country's six largest banks, are expected to follow suit.

Samer Iskandar

Iri to sell M-way toll group

Iri, the Italian state holding company, plans to privatise Autostrade, its motorway toll group, by next June and has taken the company directly under its control in preparation. Previously Autostrade was 20.7 per cent owned by Iri and 66.2 per cent controlled by Fintecna, itself an Iri subsidiary.

The move will enable Iri, which has to reduce its debts under an accord between Italy and the European Commission, directly to cash the proceeds of the privatisation of Autostrade, which is valued at an estimated L3,000bn ($1.97bn). Under a government decree published yesterday, the Treasury is to take over Stet, Iri's telecoms holding which is also to be privatised, by the end of the year.

John Simkins, Milan

Pharmacia plans R&D centre

Pharmacia & Upjohn, the Swedish-American drugs group, yesterday announced plans for a new research centre in Stockholm which is estimated to cost approximately SKr1bn ($147m).

The centre, which comprises two facilities for chemistry and biology will bring Pharmacia & Upjohn's recent investment in Sweden to more than SKr3.4 bn and will bring together research facilities presently located in Uppsala and Stockholm.

AFX News, Stockholm

Mannesmann unit bullish

Mannesmann Mobilfunk, the telecommunications subsidiary of Mannesmann, said it expects full-year sales to rise 54 per cent, from DM2.7bn a year earlier to DM4.2bn ($2.72bn). "Earnings in the period will reflect sales development," the company added. So far this year Mannesmann Mobilfunk has won a net 850,000 new mobile telephony customers, bringing the total to around 2.3m. Mannesmann expects continued growth in mobile telephony next year.

Mr Jurgen von Kuczkowski, chairman of Mannesmann, said he expects the company to have over 3m subscribers to its mobile phone network by the end of 1997.

AFX News, Düsseldorf

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

Volvo and Dasa agree aero-engine link-up

By Greg McIvor in Stockholm

MTU München, a subsidiary of Germany's Daimler-Benz Aerospace (Dasa), is to collaborate with the aerospace division of Volvo, the Swedish car and truckmaker, in developing and producing aero-engine components.

The two companies yesterday signed a co-operation agreement worth SKr4bn ($590m) over a minimum 20 years. The deal reflects a growing impetus among European aerospace groups to pool resources and cut costs in a highly competitive sector.

Both companies supply components to General Electric, Pratt & Whitney and Rolls-Royce, the world's aero-industry leaders.

Under the agreement Volvo Aero will join MTU in developing and manufacturing components for engines supplied by Pratt & Whitney, the US group, for use in Boeing 777 inter-continental jet aircraft.

Volvo Aero will concentrate on making casings, while MTU is to focus on production of rotating parts such as blades, vanes, discs and rings.

The two companies aim to extend the agreement to broad co-operation in new engine programmes, spanning development, design and production work in aero-engines. Joint efforts could also include technology development.

Mr Arne Wittlöv, Volvo Aero chief executive, said it was vital for the aero-engine industry to streamline its operations to avoid duplication in technology, design, development and manufacturing.

"We have now taken an important step in enhancing European efficiency and competitiveness in order better to meet overall customer demand for low cost and high quality," he said.

Volvo Aero said the collaboration would boost annual turnover by SKr200m and would result in improved competitiveness.

It is in effect taking over casings production from MTU and will employ an additional 200 workers at its plant in Trollhättan, west Sweden.

Mr Rainer Hertrich, MTU chief executive, said the link with Volvo Aero heralded an intensification of co-operation among European engine makers. The alliance would spur MTU's own drive to improve competitiveness, be said.

Volvo Aero made operating profits of SKr103m last year on sales of SKr4bn. MTU had turnover of DM1.7bn, but no profit figure was available.

Hoechst takes inevitable step

Daniel Green on the decision to buy out Roussel-Uclaf minorities

Hoechst's decision, announced yesterday, to spend DM5bn ($3.22bn) on buying out the minority shareholders in France's Roussel-Uclaf is the latest in a series of strategic moves by the German chemical group to enhance shareholder value.

The company, led by its chairman, Mr Jürgen Dormann, has in recent months split itself into six parts; promised to float stakes in some of its divisions; and offloaded its underperforming speciality chemicals businesses.

It has also promised to adopt US accounting standards and to gain a New York listing – all moves designed to make the group more transparent and increase its value, says Mr Dormann. His actions have not been in vain. Hoechst's shares have outperformed the Dax 100 by 44 per cent since January.

Yesterday's acquisition removes one of the biggest obstacles to one of his most important objectives: the flotation next year of at least 15 per cent of its most valuable asset – Hoechst Marion Roussel, its pharmaceuticals business. In 18 months, Hoechst has made HMR one of the world's top five drugs companies by sales.

This flotation is in line with strategies adopted by other chemicals groups. Competitors such as the UK's ICI, Switzerland's Sandoz and Dow Chemical of the US have all in recent years split their chemicals from the pharmaceuticals businesses.

Hoechst has been far more radical than its domestic rivals, BASF and Bayer, but it has not followed most of its international competitors in splitting completely. Hoechst believes it can keep majority ownership while letting management concentrate on competing in a single industry as well as giving shareholders the benefit of the higher premiums commanded by drugs businesses.

Indeed, Roussel shares have risen steadily for almost a year in anticipation of Hoechst's move. And Hoechst has made no secret of the fact that it had been in talks with the French government – which owned 4.3 per cent of Roussel – to ensure that it would take up any offer.

So while Hoechst's offer yesterday was at only a 6 per cent premium to the Roussel share price, it was at a 12 per cent premium to the price a month ago and 19 per cent to the price three months ago.

Nevertheless, the transaction price is modest by drugs industry standards, valuing Roussel at 25.5 times 1996 prospective earnings. Many of the world's large drugs companies are trading on price earnings ratios at that level or higher. The relatively low p/e is despite Roussel-Uclaf's poor profitability. Roussel suffers from being heavily dependent on what the drugs industry regards as difficult markets in France and Italy.

Mr Daniel Camus, Roussel finance director, said yesterday that the company expected an operating profit margin of 16 per cent this year. He said the average industry figure was 23 per cent, although 30 per cent or more is not uncommon.

But the price was also modest because of the virtual impossibility that Roussel could be bought by anyone else. Hoechst and Roussel are linked through more than five routes – including joint holdings in Agrevo, the agricultural joint venture with Germany's Schering, and veterinary businesses – as well as the direct majority stake.

The deal – over which Hoechst was advised by Lazards and Roussel-Uclaf by SBC Warburg – is unlikely to run into the sort of political difficulties associated with the sale of Thomson to Lagardère and Daewoo of South Korea. True, the relationship between Hoechst and France has been a delicate one since before the second world war.

However, as the politics of western Europe changed in the 1990s and as Hoechst developed its plans to break itself up, its managers decided such restraint was no longer needed.

Moreover, the French government, which yesterday confirmed the sale of its 4.3 per cent stake in Roussel-Uclaf, said it had obtained in return from the German company "a series of commitments reinforcing future French business within the HMR group for pharmaceuticals and fine chemicals".

This appeared to ease official concerns that the total absorption of Roussel-Uclaf might result in the sort of rationalisation and job losses that have followed recent mega-mergers in the world pharmaceutical industry.

The path is now cleared for Hoechst to finalise details of the HMR flotation to be presented to shareholder meetings next spring.

Jürgen Dormann: objectives are transparency and value AP

Loan agreed for Italian power station

By Andrew Taylor and Conner Middelmann

Banks yesterday completed Italy's largest private financing for an industrial project, a $1.3bn loan for the country's biggest integrated gasification and combined cycle power plant.

It is the fourth privately financed power station to complete funding agreements international banks, taking the amount raised in the past 12 months to about $3.5bn.

The 15-year loan is to finance a 551MW power station, known as Sarlux Srl, at the Sarroch oil refinery on the south-east coast of Sardinia.

The plant which will sell electricity to Enel, the state owned electricity company, will be operated under a 20-year concession by a joint venture between Saras, the Italian oil refinery company, and Enron, the large US energy group.

The pricing terms of tha loan were not disclosed. Lead arrangers include Chase, NetWest Markets, Banque Paribas and Banca Commerciale Italiana. Syndication of the loan is expected to be completed next spring.

The European Investment Bank will provide L750bn ($489m) of funds but will not take on any project risk. Snamprogetti and Turbotecnica of Italy and General Electric of the US will build the plant.

Banking agreements were signed earlier this month for an $800m privately financed power station at Falconera on Italy's Adriatic coast. A consortium of seven international banks agreed to provide L1,003bn of ths L1,330bn cost of the project.

A joint venture of Anonima Petroli Italiana (API) and Asea Brown Boveri (ABB), the Swiss-Swedish electrical engineering group, will provide the remainder of the finance and operate the power station under a 25-year concession.

Private-sector investors bave been attracted by enhanced state-backed tariff agreements in a bid to encourage extra capacity and reduce the country's need to import electricity. An estimated 15-20 per cent of Italy's electricity is imported.

Banks earlier this year agreed a L732bn syndicated loan for a 350MW privately financed power station at Rosignano in Tuscany, in which Tractebel, the private Belgian power producer, is the biggest shareholder.

Disney/ABC in deal with Telepiù

By Raymond Snoddy

Disney/ABC International has signed a 10-year deal with Telepiù, Italy's first pay television service – a deal which will enable Telepiù to offer pay-per-view movies and have its own subscription Disney Channel.

Telepiù, which leunched its digital satellite service earlier this year, has signed up 40,000 subscribers so far compared with the 80,000 it hoped to have at this stage in its development.

Disney/ABC will license pay television and pay-per-view rigbts to Telepiù for feature films from the Disney, Hollywood, Touchstone and Miramax pictures. The newly developed premium Disney channel is expected to be launched in late 1997.

There are already Disney Channels in the UK, Taiwan and Australia and additional channels will be launched in France in March and the Middle East in April.

Kvaerner continues with £1bn disposal strategy

By Tim Burt

Kvaerner, the Anglo-Norwegian shipbuilding and engineering group, yesterday announced the latest stage of its £1bn ($1.65bn) disposal strategy by selling its fleet of refrigerated bulk carriers for NKr1bn ($154.2m).

The company – which launched the disposals following its £904m acquisition of UK conglomerate Trafalgar House this year – said the deal would lift its 12-month divestment proceeds to £550m.

Mr Jan Magne Heggelund, Kvaerner finance director, said: "This is part of Kvaerner's previously announced disposal programme and provides the group with a profit of about NKr90m which will be recorded during the last quarter of the year."

Further disposal candidates are thought to inclnde Cunard, the loss-making cruise line, and Trafalgar's plastics machinery business.

In the first nine months of this year, such non-core businesses contributed sharply reduced pre-tax profits of NKr173m compared with NKr848m last time, in spite of increased sales of NKr7.84bn against NKr5.34bn a year ago.

Kvaerner yesterday said it was confident of more than exceeding its £1bn target by spring 1998.

The latest deal follows six weeks of talks with Agdesidens Rederi, the Scandinavian shipping group, which bas established a new company to operate the eight-ship fleet.

Equity investment for the acquisition has been provided by venture capitalists Daughty Hanson, with additional loan financing from Chase Manhattan Bank.

Kvaerner's B shares fell NKr1.50 to NKr260.5.

CONTRACTS & TENDERS

CALL FOR APPLICATION
Operator of GSM Mobile Cellular Radio in Iceland

On behalf of the Minister of Communications in Iceland, the State Trading Centre invites applications for a second GSM operator in Iceland. The licence will be in addition to a GSM licence already granted to Post and Telecom in Iceland.

Information and application forms will be available from the State Trading Centre, beginning 17 December 1996. Address: Borgartun 7, 105 Reykjavik, Iceland.

Application forms will be provided upon payment of ISK 20,000. Applicants shall in addition pay a fee of ISK 180,000 for the evaluation of their application. Both payments are non-refundable and only applications from parties who have paid these fees will be evaluated.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 12.12.96: Pool purchase price £/MWh	Final Prices for Trading on 14.11.96: Pool purchase price £/MWh	Final Prices for Trading on 14.11.96: Pool selling price £/MWh
0030	18.56	11.69	11.69
0100	18.56	13.31	14.48
0130	24.62	13.31	14.48
0200	24.62	13.31	14.48
0230	24.62	13.31	14.48
0300	16.56	13.31	14.48
0330	14.96	11.69	11.69
0400	14.96	11.68	11.80
0430	14.96	11.68	11.68
0500	14.96	11.57	11.57
0530	11.91	13.84	15.01
0600	11.85	11.68	11.80
0630	11.85	11.68	11.68
0700	11.91	16.59	17.78
0730	24.20	16.80	17.97
0800	24.87	17.10	18.29
0830	24.37	17.15	18.34
0900	25.14	17.30	18.53
0930	58.10	17.42	18.69
1000	58.20	17.48	18.76
1030	58.15	17.46	18.74
1100	25.26	17.50	18.79
1130	25.23	17.57	18.89
1200	25.23	17.80	18.93
1230	25.19	17.82	18.82
1300	25.14	17.41	18.69
1330	25.07	17.31	18.55
1400	25.05	17.30	18.54
1430	12.77	17.34	18.59
1500	12.78	17.38	18.34
1530	13.53	17.82	18.95
1600	80.39	21.37	23.84
1630	109.20	50.86	61.10
1700	178.71	107.76	127.38
1730	183.67	138.10	158.19
1800	143.97	118.88	133.59
1830	73.72	55.34	63.63
1900	47.57	37.30	41.08
1930	28.89	24.81	27.00
2000	25.19	21.47	22.89
2030	24.88	20.70	21.69
2100	24.22	20.68	21.81
2130	24.19	20.61	21.78
2200	24.18	20.61	21.77
2230	19.17	19.62	20.78
2300	19.17	19.62	20.78
2330	15.63	13.84	15.01
2400	15.63	11.68	11.68

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per [illegible]

Energy Settlements and Information Services Limited

COMPANIES AND FINANCE: THE AMERICAS

Union Carbide warns of price rises

By Tracy Corrigan in New York

Union Carbide yesterday said it planned to increase prices across a broad range of products on January 1 in an attempt to absorb escalating raw material costs, but warned that the price rises would come too late to soften the impact of higher raw material costs on its fourth-quarter earnings.

Dr William Joyce, Union Carbide chairman and chief executive officer, said the impact of rising raw material and energy costs was likely to reduce fourth quarter earnings per share by at least 25 cents from the third quarter level of $1.06.

Furthermore, he said that operating profit for the company's specialties and intermediates business would decline from third-quarter levels because of seasonal weakness in addition to the increased raw material and energy costs.

Full-year operating profit was likely to increase by 3-5 per cent, instead of the targeted 10 per cent, Dr Joyce added. However, he also said that the company was ahead of schedule for reaching its $837m target of cost reductions by 2000.

Carbide plans to increase polyethylene prices by 5 cents a pound and ethylene glycol prices by $70 a ton.

However, Mr Paul Raman, chemicals analyst at PaineWebber, said he was sceptical about the group's ability to impose such an increase in polyethylene prices, which have been coming under pressure recently.

Carbide said it also planned to increase prices for many of its solvents, monomers and intermediates.

Dr Joyce said that soaring raw material costs had significantly eroded the company's profit margins, especially in polyethylene and ethylene glycol and noted that the cost of ethane, an important raw material, was likely to average 8 cents a gallon higher in the fourth than in the third quarter.

Mr Raman said that earnings across the chemicals industry were likely to be squeezed by the increase in raw materials prices. He added that the return of seasonality to the specialties and intermediates business, which disappeared during the economic of recovery of the past few years, was a sign that the cycle was turning.

"The industry faces high feedstock costs for the next couple of quarters then rising capacity towards the end of 1997," said Mr Raman, adding that companies still typically spend the money to build plants when they have it, which tends to be at the peak of the cycle.

TCI feels the squeeze

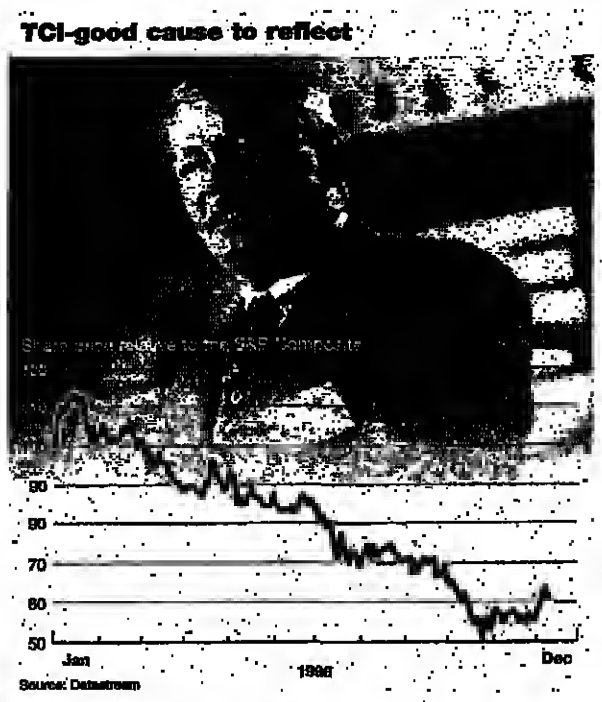
The need to meet competition from satellite services has stretched the US group's resources

After years of restless tactical shuffling, Tele-Communications Inc, the US entertainment media group, appears to have elected to take a stand in the territory it knows best.

If all goes according to plan, its Liberty Media programming subsidiary and its international operations will be spun off as stand-alone companies. They will join TCI Satellite, a direct-to-home satellite TV business, which formally started trading as an independent entity last week.

That will leave Mr John Malone's media empire stripped to its core business as a leading cable TV provider with links to 14m US households, and better placed to focus its attention on the sharpening competition from fast-growing satellite services.

TCI-good cause to reflect



Source: Datastream

But that is only one of the scenarios postulated last week following a week-long flurry of announcements on spin-offs, price hikes and programming changes which culminated in a terse release outlining plans to shed 2,500 workers and cut the pay of senior executives.

The cuts, expected to reduce annual operating costs by $100m, were seen by some analysts as a sign that the company, traditionally viewed as one of the leanest in the business, was in more difficulties than hitherto suspected.

Others suggested they were the final touches to a restructuring intended to attract a partner – preferably a telecommunications group – into a merger.

TCI, which came within an ace of merging with Bell Atlantic in 1994, needs cash. In return it has the links telecoms carriers need for access to regional markets and entertainment services.

AT&T, the leading US telecoms concern, has already joined forces with DirecTV, the General Motors-owned satellite service which is setting the pace in the introduction of multi-channel digital television to the US.

TCI shares have lost about 25 per cent of their value this year against a background of persistent reports that cash flow, mostly from its cable operations, has been insufficient to service the group's other ambitions.

The strain on resources, already considerable because of the start of expensive upgrading work to increase the programme-carrying capacity of the cable networks, has been exacerbated this year by satellite providers' first substantial inroads into the domestic TV market.

The number of subscribers to DTH services, encouraged by sharp price cuts, is on track to more than double this year to 5m at the start of a progression which is forecast to exceed 20m some time in 2001.

To offset these inroads from competitors offering 200-plus digital-quality channels, cable providers – many of which can squeeze fewer than 40 down existing lines – are rushing to introduce compression technologies to boost volume. This will open up a spectrum of possibilities, including full Internet access, telephony and other services not yet available via standard satellite.

An indication of the costs emerged in TCI's third-quarter results in October, which showed the company spent $430m in the reporting period on maintaining and upgrading its cable networks. The spun-off satellite operations absorbed a further $125m.

According to a recent study from Donaldson, Lufkin & Jenrette, the New York-based securities house, cable operators are being forced to surrender their effective monopoly over multi-channel television services.

While they continue to dominate with about 64m subscribers, against 3.4m at the last count for satellite, DLJ predicts cable subscriber growth will slow to a stop by the end of the decade when new satellite signings are expected to peak.

Although TCI recently announced some subscription increases, the new competition limits its scope for further rises in the foreseeable future.

Happily, there are other new sources of revenue, which TCI has been quick to exploit. The newly-configured entertainment industry has been cranking up the volume of programming in anticipation of the 200-plus channel era, providing a window of opportunity for cable groups.

While the makers of popular, established products such as Cable News Network and ESPN, the Walt Disney-owned sports programme, charge cable companies a fee, newcomers are increasingly prepared to pay for access to a wider audience.

TCI, for example, was paid an estimated $10 for each subscriber it connected to Fox News, News Corporation's recently-introduced 24-hour TV current affairs network. In the process, for lack of bandwidth, several other networks found themselves displaced in many of TCI's 1,200 cable systems to make space for the interloper.

The squeeze will intensify next month, according to Mr Jedd Palmer, the group's programming chief, when Cartoon Network, Encore Plex, Animal Planet (Liberty Media owns stakes in all three) and Home & Garden Television join the TCI line-up. Home & Garden is believed to have offered to pay $6 for each new hook-up to a cabled home.

But even here the opportunities are limited, both by the cable industry's strenuous efforts to expand its capacity and the satellite operators' aggressive inroads into the market. With ample bandwidth expected, hook-up payments may well disappear before the turn of the century.

By then, according to industry estimates, 80 per cent of the conventional cable systems in the US will have been upgraded to allow them to carry 200 channels or more.

The timing coincides almost precisely with the 1998 launch schedule for an ambitious $3bn joint satellite TV and services venture when News Corporation and MCI, the long-distance telecoms carrier, join the fray.

The earthbound Mr Malone may already have good cause to reflect that the "unsettled regulatory climate" which wrecked Bell Atlantic's $25bn TCI takeover three years ago was a mere breeze compared with the approaching competitive storm.

Christopher Parkes

AMERICAS NEWS DIGEST

Magellan renews faith in technology

Fidelity's Magellan, the largest US mutual fund, is continuing its retreat from bond investments in favour of a return to its traditional heavy weighting in technology stocks, according to figures released by the Boston-based fund manager yesterday.

During the month Mr Robert Stansky, who took over as the fund's manager at the beginning of June, reduced its bond weighting from 9.8 to 8.7 per cent, while its share of technology stocks rose from 10.1 to 11.6 per cent. Six months ago, the fund had a 19.2 per cent bond weighting, but only 3.2 per cent in technology stocks.

Intel, the largest semiconductor manufacturer, is now the fund's single largest equity holding. Its top 10 holdings at the end of October also included Conrail and CSX, two railway companies which announced plans to merge during the month. *John Authers, New York*

Ontario Hydro takes charge

Ontario Hydro, one of Canada's two biggest power utilities, is taking a C$2.5bn (US$1.84bn) special charge covering problems with its nuclear stations and accounting changes and will report a 1996 loss of about C$1.9bn.

The writedown includes C$250m for the early shutdown of a reactor at the Bruce generating station. Though this reactor had a design life of 40 years, the utility has decided not to retube it and it will close in 2000, reducing its life to 23 years. Another C$400m covers underfunding of maintenance at its nuclear system.

Ontario Hydro – a large international borrower – has been restructured since 1993 because of slow demand growth in the recession. About 60 per cent of its power is nuclear-generated. Before the special charge, the utility had expected to post a 1996 profit of about C$600m.

"These steps will help to get their cost base down and will improve future profitability," said Mr Walter Schroeder, head of Dominion Bond Rating Service, Canada's biggest bond rating agency.

Robert Gibbens, Montreal

RBC plans big-project arm

Royal Bank of Canada is to set up a C$500m (US$369m) subsidiary to make equity investments in medium sized private companies. The new unit will take equity stakes in companies that have moved beyond the venture capital phase, including leveraged buyouts, acquisitions and turnround businesses. The company, to be named RBC Merchant Bank, will be chaired by Mr Anthony Fell, who is chief executive of RBC Dominion Securities, the bank's investment banking arm. It is expected to open for business on January 1.

"It is geared to originate and structure large, complex transactions and to become the most significant source of private equity in Canada," Mr Fell said. RBC's existing venture capital business, Royal Bank Capital Corporation, usually invests between C$2m and C$5m in companies whose total value is less than C$75m.

RBC Merchant Bank, on the other hand, will target companies worth more than C$75m which can expect to move to a stock market listing in a relatively short time. The new operation will be jointly managed by Mr George Engman, currently head of the private equity group of the Ontario Teachers Pension Plan, and Mr Philip Olsson, vice-chairman of RBC Dominion Securities.

George Graham, Banking Correspondent

MCI closes online shop

MCI Communications is to close its one-year-old music retailing business and an on-line shopping service, saying people liked to window shop but weren't buying.

The long-distance telecommunications company has been winding down the ventures, which began in November 1995. MCI spent about $10m developing and promoting the service, the company said. It needed to make only a minimal investment to provide the service because it uses many of the resources – transmission, billing and customer service systems – already in place.

MCI also sold the music products through its on-line shopping service, Marketplace MCI, on the World Wide Web portion of the Internet. *AP-DJ, Washington*

Imsa IPO raises $142.5m

Industrias Monterrey (Imsa), a Mexican steel, construction and battery making conglomerate, raised $142.5m in an initial public offering sold on the US, international and Mexican markets. The company sold 7.5m American depositary shares at $19 a share, with 3.5m of the total sold on the US market, 2m sold to international investors and the remaining 2m on the Mexican market. *AP-DJ, Monterrey*

هكذا من الأصل

Telkom raises $600m through share sale

By Manuela Saragosa in Jakarta

The Indonesian government has sold 388m of the shares it owns in Telkom in a US$600m private placement. The sale is part of its unfinished privatisation of the state-controlled domestic telecommunications company.

The private placement represents 4.15 per cent of Telkom. A second offering of Telkom shares had been expected to follow last year's initial public offering, in which the size and price of the offer was scaled back because of poor international demand.

The placement was made through local brokerage firm Makindo Securities and Deutsche Morgan Grenfell, which will place a number of the shares in the US. Two other domestic securities houses, Danareksa Sekuritas and Bahana Securities, acted as government brokers in the deal.

The shares will be sold on to institutional investors at Rp3,700 each, brokers said. Offers for the private placement ranged from Rp3,400 to Rp3,650 a share. The placement will raise US$600m, but it is not clear how much the government has received per share for the sale.

Mr Mar'ie Muhammad, finance minister, said the government had decided not to divest shares in the form of a second offering, in order to avoid time-consuming procedures such as road shows and bookbuilding. He declined to say whether further placements could be expected.

The size of the placement, he said, was determined by the "ability of the market to absorb more Telkom shares" following robust performance of the Jakarta Stock Exchange Composite index. The index has surged to all-year highs in recent weeks since a low of 530 points in mid-August after political riots in July.

The placement is the second privatisation this year following last month's IPO of the state-owned Bank Negara Indonesia. Funds raised will accelerate repayment of the high-interest portion of the government's foreign debt.

Telkom's IPO in November last year was scaled back from 27.5 per cent of the company to 19 per cent and the share price cut to Rp2,050. Telkom shares closed yesterday down Rp25 at Rp3,850, with 9.5m shares changing hands.

Indian tea-producers serve up mixed results

By Kunal Bose in Calcutta

Focusing on quality: only the best grades of tea have maintained their price recently, and second-half prospects are bleak

Indian tea producers reported mixed results for the six months to September 30, with strong increases coming from companies focusing on quality and added value.

The outlook for the industry in the second half, however, is relatively bleak because of plunging export sales and sharp increases in production.

Tea auction prices have fallen since September, according to analysts. The prices of medium and plain varieties of tea have fallen between Rs3 and Rs6 per kilogramme. Only the best grades, which account for about 30 per cent of the country's production, have held their prices. Increases in wages within the industry and in fuel prices have also undermined the performance of tea companies.

Tata Tea, the country's largest plantation group, lifted operating profits by 25.5 per cent to Rs595m ($16.57m) on the back of a 40 per cent rise in income to Rs3.25bn. After-tax profits were up nearly 25 per cent to Rs353m. Earnings per share rose to Rs14.52 from Rs9.48.

The company, which markets a large portion of its tea in value-added packets and polybags as branded products, performed much better than the groups that sell tea in bulk at the auctions.

Analysts say that Tata Tea's profits would have been higher but for Sri Lankan production hitting the industry in Kerala and Tamil Nadu, the two states in south India where it owns a large number of estates.

AFT Industries, which has all its estates in the highly productive north-eastern state of Assam but which sells all its tea in bulk, posted a 1.33 per cent drop in operating profits to Rs141.1m, on a 6.42 per cent fall in sales to Rs328m. Net profits rose 1.15 per cent to Rs79.4m because of a lower tax provision of Rs55m, against Rs58m in the year-ago period.

The company hopes to raise export sales to Rs150m in the current year from Rs18.8m last year.

George Williamson, which owns some of the finest properties in Assam, lifted operating profits by 147 per cent to Rs347m on the back of 37.35 per cent growth in income to Rs945m. This included a one-time profit of Rs101.2m on the sale of investments. Net profits rose 330 per cent to Rs219.2m.

Sanyo moves into market for latest LCD panels

By Michiyo Nakamoto in Tokyo

Sanyo, the Japanese electronics manufacturer, is investing Y47bn ($417m) in a new plant in western Japan to produce large liquid-crystal display panels.

The new plant marks Sanyo's entry into the market for thin-film transistor (TFT) LCDs, which are high-quality LCDs used mainly in notebook PCs. Sanyo already manufactures super-twisted nematic (STN) LCDs, which provide graphics of lower quality.

Mr Hideo Kondo, general manager of Sanyo's semiconductor business, said the company had decided to enter the TFT-LCD business because of growing demand for the product. Although Sanyo will be a latecomer to the TFT-LCD market when production at its new plant starts in about a year and a half, Mr Kondo said "we believe this is still a promising market".

Sanyo's new facility will specialise in 12.1-inch panels, which are the largest size currently available for TFT-LCDs. The company expects sales of the panels from the plant to reach Y50bn by 2000.

Although competition is fierce and prices have fallen substantially over the past year, demand for LCD panels has recovered significantly and is expected to grow. Sharp, the market leader, estimates the market will be worth about Y640bn in the year to March and will grow to about Y1,200bn by 2000.

A shift to larger-sized panels and a slowdown in the supply of components have meant that LCD supply this year has not kept up with demand.

While LCD panels have been used mainly in smaller, portable products, such as video cameras, car navigation systems and notebook PCs, technological advances making larger panels possible have fuelled expectation that LCDs will increasingly be used for desktop PCs as well.

Although the consensus is that TFT-LCDs will be the standard because of their higher-quality graphics, Sharp is working on improving the quality of STN-LCDs and has already announced that it will mass-produce 21.4-inch panels for desktop PCs towards the end of next year.

ASIA-PACIFIC NEWS DIGEST

Sime Darby eyes Oriental stake

Sime Darby, Malaysia's biggest conglomerate, has been given approval to start talks on acquiring a majority stake in Oriental Bank, a local commercial bank. Such a merger would create the fourth-largest Malaysian bank by assets, analysts said.

The permission from Bank Negara, Malaysia's central bank, clears the way for a merger between Sime Darby's banking subsidiary, United Malayan Banking, and Oriental Bank. If the merger goes through, it would confirm that consolidation in Malaysia's overcrowded banking industry has begun. The nation's leading stockbroker and two local banks agreed last month to form a diverse financial services group under a holding company called Rashid Hussain.

Sime Darby said it had not yet begun negotiations on its proposed acquisition of Oriental Bank, but the fact that Bank Negara has given approval for the talks suggests that both Sime and Oriental have signalled an interest in a merger.

Oriental Bank is a subsidiary of Malaysian Industrial Development Finance, which owns 78 per cent of the bank.

The government has a long-standing policy of urging consolidation among the 37 commercial banks in Malaysia in order to prepare the local industry ahead of market liberalisation expected in the first few years of the next century. Malaysia is also hoping that bigger, more sophisticated banks will be better able to support an increasing number of companies investing offshore.

James Kynge, Singapore

Samsung lifts KorAm stake

Samsung, the South Korean industrial and electronics conglomerate, has increased its stake in KorAm Bank from 14.25 per cent to 17.60 per cent. The Korean Stock Exchange said Samsung Electronics and five other Samsung units bought the shares in the joint venture commercial bank between July and November.

KorAm's largest shareholder is Bank of America with 18.55 per cent, while Daewoo, the industrial group, owns 11.76 per cent. Shares in KorAm closed Won560 higher yesterday at Won7,560 amid speculation over competition between the main shareholders for a controlling stake.

AFX-Asia, Seoul

DB to reduce capital

DB Group, the New Zealand brewery and liquor group controlled by Heineken through Asia Pacific Breweries, yesterday announced a capital reduction which will see NZ$181m (US$126.6m) returned to shareholders.

Directors said that capital investment could be supported by future cash flows and that current cash balances were surplus to future requirements. The annual meeting in February will be asked to approve a proposal to cancel three out of every four shares on issue and to repay 60 cents for each cancelled share.

DB Group said that in the year to September 30 it made a net profit of NZ$30.4m, compared with NZ$27.3m a year earlier, against which a NZ$10m provision had been made for tax losses. Sales were NZ$650.4m, against NZ$658.3m. The company said that in the past 12 months the total beer market fell 2.4 per cent, as margins came under pressure from discounted imported brands.

Terry Hall, Wellington

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Scandinavian side helps Airtours rise 46%

By Scheherazade Daneshkhu

Airtours, the rapidly expanding package holiday company, signalled that the UK holiday market had bounced back after last year's depressed conditions by delivering a 46 per cent rise in pre-tax profits and an upbeat view of the prospects for next year.

Recovery in the UK market and a strong performance in its Scandinavian operations, which accounted for more than a third of total profits, helped push pre-tax profits up from £59.4m to £86.8m ($142.4m) in the year to September 30.

This was helped by a change in accounting policy which added £1.7m to the profits but was still at the top end of expectations. The shares rose 11½p to 714½p.

Mr David Crossland, chairman, said capacity cuts in the UK had led to higher prices. Net profit per passenger rose from £9 to £14 in the year to September 30; prices of discounted late holidays were 30 per cent higher than in summer 1995. Last year its profits fell by more than 20 per cent compared with 1994. In 1995 the 30 largest UK package holiday companies incurred net losses of £10m, according to the Civil Aviation Authority.

UK tour operators reduced the supply of summer holidays for 1996 by 10 per cent to 8.5m, resulting in fewer late bargains.

Airtours – the UK's second largest tour operator with a 20 per cent share – intends to keep capacity to the same level next summer.

"If this position is maintained across the industry, the rewards could be substantial," said Mr Crossland.

Thomson, the largest tour operator with 30 per cent of the market, said yesterday that prospects for next summer were buoyant as long as operators held firm on prices.

First Choice, the third largest operator, is expected to unveil substantially improved full-year results next week but analysts expect Inspirations to report a £13m loss after peak-season flight delays.

Mr Crossland said he was confident the Monopolies and Mergers Commission investigation into the ownership links between tour operators and travel agents would reveal the UK industry was one of the world's most competitive.

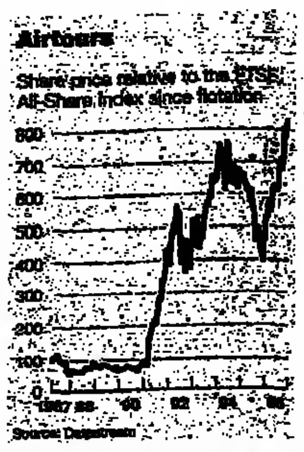
Airtours would continue to diversify into an international leisure group. It was now the largest all-inclusive tour operator in the world, carrying 5m passengers a year, he added.

Airtours, in which Carnival Corporation, the largest US cruise line, took a 29.6 per cent stake in April and made a £100m cash injection, had the resources to spend £200m on acquisitions without going to shareholders, he said. The main areas for expansion include the Mediterranean cruise market.

The company also had ambitions to become a big player in Canada and America and to increase its operations in another Scandinavian market – possibly Finland – as well as another European market.

LEX COMMENT

Airtours



Airtours is demonstrating that geographically diversified tour operators can make a decent and not particularly volatile living. Publicity over package holiday price wars in the UK continues to dog investment ratings for the industry. But Airtours' investments in Canada and Scandinavia have meant that UK earnings amount to only about half the group total. And with its £80m investment in Sweden having been fully paid back, Airtours should have little difficulty finding profitable homes for its £200m or so of surplus cash. That said, the UK market remains unpredictable. Last year, Airtours' profits per UK passenger rose from £9 to £14, but these paltry returns remain vulnerable. The current pick-up in early bookings, reversing the trend for last minute bargain hunting, could encourage tour operators to cash in by offering more holidays. The industry must also absorb tax increases on holiday insurance. Meanwhile, e Monopolies and Mergers Commission investigation into vertical integration within the industry is unlikely to be resolved much before next November.

Airtours's shares have risen to a prospective price-earnings multiple in line with the market average. The removal of its significant traditional discount looks deserved, given the success of its diversification. Besides, having Carnival as a 30 per cent shareholder, and potential bidder, limits the downside. But while the MMC threat remains, a further rerating looks unlikely.

Improved margins at Avon

By Roland Adburgham

Fast growth in sales of automotive components and improved margins in its two other divisinns have lifted Avon Rubber's pre-tax profits for the year to September 28 by a third.

The result – up from £16.2m to £21.5m ($35.3m) and slightly ahead of analysts' forecaste – was achieved on sales of £347.5m, a 13 per cent gain.

The automotive components' division accounted fnr nearly half nf gronp sales, with demand for fuel and vapour hoses in the US and from Ford – for coolant hoses for its Fiesta programme – helping to lift divisional turnover by nearly a quarter to £161.6m.

Operating profits in this division rose by a fifth to £11m, with margins impaired by the injected rubber products business in the US and by the polymers business in France.

The technical prodncts division improved operating profits by 17 per cent to £7.1m on turnnver 7 per cent up at £88.6m.

Tyres and processed materials saw turnover rise 4 per cent tn £97.4m. But improved margins lifted operating profits 39 per cent to £6.9m. Although demand for tyres in the UK was down, exports increased.

Ashley Ashwood

Peter Williams: sterling's strength has dented hopes

Difficult markets hold back David S Smith

By Michael Lindemann

David S Smith, the paper and packaging group, yesterday reported a 2 per cent fall in interim pre-tax profits and warned thet earnings would be lower again in the second half, reflecting difficulties in cnntinental European markets.

However, the company said it expected a recovery half-way through next year.

Mr Peter Williams, chief executive, blamed the lower profits in the six months to November 2 on weaknesses in the German and French economies and said sterling'e strength had dented hopes for the second half.

The shares initially fell 18p to 288½p on news that profits had fallen from £59.6m to £58.6m ($96m). However, after what one analyst described as "an initial attack of nerves" they edged upwards to close at 299½p.

Mr Williams said the competitive European market for packaging and the sudden rise in sterling had dealt the group a double blow because they had lured several "desperate" European manufacturers back into the UK market.

"We are seeing people in the UK who we have not seen for a long time," he said. The problems were compounded by new capacity in Europe and the recent French truckers' strike

Mr Williams said he expected the outlook to improve in about six months.

Demand for corrugated board, which Mr Williams said was an early indicator of economic prospects, had risen 6 per cent in the third quarter of this year compared with the same period last year. "The numbers suggest there is something happening," he said. "Sentiment will change in about six months."

Analysts shared Mr Williams' views about the likelihood of a European recovery and pointed out that the group would stand to benefit considerably once this happened.

"Most investors think continental Europe will pick up," said Ms Francesca Raleigh at Panmure Gordon, the brokers.

New production capacity for corrugated paper in Germany, Belgium and France would increase competition, but the oversupply was not as drastic as in other paper sectors, Ms Raleigh said.

Vector buys 15 Caradon businesses

By Andrew Taylor, Construction Correspondent

Vector Industries, of which CINven, the former development capital arm of the British Coal pension fund is the biggest shareholder, has paid about £200m ($328m) to purchase 15 engineering businesses from Caradon, the building materials group.

The purchase is thought to bring nearer s flotation of Vector. CINven has increased its stake from 55 per cent to 72 per cent.

Vector's other main shareholder, 3i, bas an 18 per cent stake and Vector's management 10 per cent.

The company was started in 1993, with the support of CINven and 3i, to invest in manufacturing businesses. Following the latest purchase, its turnover is expected to rise to £357m generating an estimated operating profit of £31m for the year to March 31 1997.

Caradon announced this summer that it was negotiating to sell its non-core European engineering businesses for about £190m. The purchase price agreed with Vector is made up of £183.6m cash and a £6m subordinated loan note payable over seven years. A further £10m is payable to Caradon if target rates of return are achieved by the businesses.

These inclnde companies from Caradon's distribution, plastics, ventilation and automotive and aviation components divisions. Caradon announced earlier this month that it had sold its eutomotive plastics business for £30m.

The businesses bought by Vector made pro-forma profits of £21m on sales of £264m, according to Caradon, which said the proceeds before expenses were about the book value of the assets.

The disposals should leave the group debt free to concentrate on its core European building products businesses.

Restructuring bears fruit as NFC rises 39%

By Motoko Rich

A £35m restructuring programme continned to bear fruit at NFC as the transport and logistics group raised underlying pre-tax profits by 39 per cent to £105.7m ($173.3m).

Including exceptionals – mainly last year'e charges of £37.6m – pre-tax profits nearly trebled from £38.6m to £105.2m.

Sir Christopher Bland, chairman, said the new management, appointed in June 1995, had "the confidence of a record for the first time".

Sales increased 12 per cent to £2.46bn. Continental Europe continued to make heavy, though reduced, losses of £8.5m (£10.1m).

Sir Christopher said the group was left with the legacy of a "clutch of lousy businesses which have consistently underperformed". However, it was unable to sell them: "Divestment is not an option. We have to trade our way out of trouble."

Mr Gerry Murphy, chief executive, said two-thirds of the group's revenues in continental Europe were derived from "network" logistics, under which the group tried to match truck schedules with the distribution patterns of several customers. The group was aiming to raise the proportion of revenues derived from more profitable "contract" business, under which the group acts as e dedicated co-ordinator of the logistics activities of a particular company.

Operating profits in the UK and Ireland rose 28 per cent to £78.3m, as cost cutting fed through to the bottom line. In North America, where the group had little exposure to the difficult grocery retailing market and virtually no "network" logistics business, the operating surplus jumped 73 per cent to £25.5m.

Capital expenditure fell from £247.2m to £106.8m, as property disposals rose and the group cut its gross capital spending. "We are being much more vigorous in the application of capital," said Mr David Finch, finance director. The remaining £18.5m of the reorganisation provision would be used in the current year.

Earnings per share were 8.9p (2p). A final dividend of 4.6p gives an unchanged total of 7.1p.

The shares closed down 5p et 175p.

NEWS DIGEST

Cookson exits pigment side

Cookson, the industrial materials group, faces a £60m ($98.4m) write-off arising from its plans, detailed yesterday, to withdraw from the manufacture and sale of industrial pigments. The write-offs, comprising £30m of goodwill and a £30m loss on disposal, will push total exceptional charges this year to more than £100m, analysts said.

Shares in the group, which has been hit by a series of profit downgrades because of soft demand st its electronic materials business, eased 6½p to 211p.

Analysts said the write-offs were greater than expected, but they welcomed the long-awaited exit from pigments.

Cookson plans a phased withdrawal from the business, which makes and sells materials used to colour plastics, inks and paints. Hoechst Celanese Corporation will acquire the rights to Cookson Pigments' range of organic pigments for $19m, and pay a further $5m for the related inventory of finisbed goods.

Cookson will retain ownership of the production assets, and maintain supply of pigments for up to two years before closing the plant at Newark, New Jersey. It will enter into licensing and service agreements with Hoechst.

Discussions are also "at an advanced stage" for sale of the inorganic pigments business to Dominion Color Corporation. If a deal is agreed, Dominion will pay a little over asset value of about £3m. Cookson will continue to supply pigments for up to two years.

Closure costs of about £5m, including redundancy payments for 50-100 people and site restoration costs, are included within the provisions.

Mr Dennis Millard, Cookson's finance director, said that under FRS 3 the £30m goodwill write-off was largely a technical adjustment. The withdrawal would marginally reduce gearing and be earnings enhancing, be said.

Ross Tieman

Thorntons sells French shops

Thorntons, the UK chocolate maker and retailer, has found a buyer for its 21 shops in France.

The business lost £655,000 in tha year to June 29, when its net assets were £3.9m. Thornton's described the consideration as nominal.

The group decided in the summer to withdraw from its lossmaking operations in both France and Belgium, either by closing or selling them. In October it reported a £13.8m loss for the year after exceptional charges of £21.9m, including £7.9m for withdrawal from Europe.

Mr John Thornton, chairman, said yesterday that the sale would mean that the cost of getting out of France would be materially less than the £5.3m provision.

The buyers are the shareholders of Jeff de Bruges, a confectionery retailer operating more than 100 franchises across France. It is partly owned by Neuhaus-Mondose, a specialist Belgian chocolate maker.

David Blackwell

Manchester Utd share placing

Manchester United yesterday placed 3m shares with City institutions to raise £16.7m ($27.4m) for the continued fit-out of the north stand at its Old Trafford stadium and the building of a new training ground.

The Premier League club, whose shares were yesterday admitted to the FTSE-250 index, went out of its way to say the proceeds from the equity sale would not be spent on new players.

The placing involved the sale of 3m shares – equivalent to 4.84 per cent of the share capital – et 585p each to e group of City institutions. It is the first time the club has come to the market to raise funds since its flotation in July 1991.

The shares closed up 6½p at 584p.

Patrick Harverson

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Airtours	Yr to Sept 30	1,718	(1,318)	86.8	(59.4)	49.23†	(34.94)	12.75	Feb 17	11	16	14
Apollo Metals	Yr to Sept 30	71.4	(57.1)	3.81	(3.17)	8†	(7.7)	2.75	Feb 12	2.6	4.1	3.9
Atkins (WS)	6 mths to Sept 30★	153.3	(105.4)	9.35♠	(9.59♥)	6.4	(6.3)	2.25	Jan 7	1.7	-	5.1
Avon Rubber	Yr to Sept 28	347.5	(306.5)	21.5	(16.2)	30.6	(40.9)	13.75	Feb 7	12.35	19.5	17.7
Bristol Water ★	6 mths to Sept 30	34.5	(32.6)	7.27♥	(6.49♥)	74.3	(67.4)	15.85	Feb 7	13.75	-	45.5
Bulmer (HP)	6 mths to Oct 25	162.6	(138.7)	17.4♠	(13.9♠)	21.19	(18.44)	4.9	Feb 17	4.55	-	13.2
Chemring	Yr to Sept 30	80.4	(71.1)	8.11♠	(8.61)	22.8	(24.2)	7.69	Feb 14	7.32	11.45	10.9
Compco	6 mths to Sept 30	4.99	(2.05)	1.14	(0.434)	3.87†	(1.98)	0.5	Mar 27	-	-	3.24
Eva §	6 mths to Sept 30	48.8	(45.2)	0.748	(0.25)	5.4	(1.7)	1.5	Mar 27	1	-	1
First Technology	6 mths to Oct 31	23.4	(18.1)	4.2	(3.28)	17.19	(13.5)	4.2	Mar 3	3.2	-	6.5
Greene King	24 wks to Oct 20	107.6	(76.1)	13.4♠	(11.1)	18.8†	(17.8)	4.75	Feb 3	4.5	-	15.5
NFC	Yr to Sept 30	2,463	(2,201)	105.2	(38.6♠)	8.9	(2)	4.6	Feb 24	2.8	7.1	7.1
SEC	Yr to Sept 30	59.7	(27.6)	2.61	(1.16)	11.2†	(6.1)	2.75	Jan 31	2.25	4.75	3.75
SEP Industrial	Yr to Sept 30	56.2	(54.7)	5.55♠	(5.75)	4.33†	(4.59)	1.1	Apr 4	1	1.75	1.8
Shaftesbury	Yr to Sept 30	9.89	(9)	3.87	(3.85)	6.45†	(7.16)	1.25	Feb 14	1	2	1.5
Smith (David S)	6 mths to Nov 2	615.4	(612.9)	58.6	(59.6)	14.1	(14.6)	2.6	Mar 10	2.45	-	7.5
Stirling	Yr to Sept 30	46	(46.2)	1.46	(2.08♥)	1.11	(1.61)	0.63	Jan 24	0.63	-	2.2
Tilon	Yr to Sept 30	11.8	(12)	1.73	(1.81)	10.85	(10.82)	3.4	Feb 24	3.2	5	4.7
Wiggins	6 mths to Sept 30	2.85	(2.06)	0.505	(0.366)	0.1	(0.074)	-	-	-	-	nil
Worthington	6 mths to Sept 30	14	(12.8)	1.01	(0.909)	2.74	(2.57)	0.9	Apr 3	0.8	-	2.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Archimedes	Yr to Oct 31	670.43	(665.11)	0.363	(0.348)	29.6	(28.44)	19	Feb 19	19	30	28
BZW Convertible	3 mths to Oct 31	-	(-)	-	(-)	-	(-)	1.5	Jan 24	-	-	7.8
I&S Discovery	6 mths to Oct 31	132.44	(124.59)	0.276	(0.124)	1.06	(0.48)	-	-	-	-	1.65
TR High Income	9 mths to Sept 30	-	(-)	-	(-)	-	(-)	1.6◆	Jan 31	-	-	6.4

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ★Comparatives restated. §USM stock. ◆Third interim; makes 4.8p to date.

Kuwait

Stability has a brittle quality

This oil-rich country appears to be recovering from Iraq's invasion. But beneath this deceptive veneer is a multitude of problems, some fed by a generous welfare state, writes Robin Allen

Appearances in Kuwait can be deceptive. The country has not exhibited so much stability since January 1990, when police used tear-gas to quell street rioters demanding the recall of parliament. Then came the stab-in-the-back from Iraq: six months of brutal occupation, followed by liberation and months of poisoned air from burning oilfields.

Today, the country seems repaired, even sleek in some areas. Buoyant oil revenues make for money in the pocket. Peaceful elections have been held, and the government is in control. Banks are recovering, and the stock market has risen. Foreigners are back to do the work, and the living is easy.

But look beneath the surface and Kuwait's stability has a brittle quality.

Ask Kuwaitis to identify their country's top priority and the answer will be "security". There is nothing strange about that. Most define it as security against the threat from Iraq, while some younger ones say it is domestic security in the form of salary, employment and the welfare state.

There is a twist, however, in that it is their conviction that others, rather than themselves, will provide all this security. Most Kuwaitis expect the US and "other friends" to defend them against Iraq, and the government to provide them with the money and the subsidies to which they believe they are entitled.

There is little interest and less enthusiasm for joining the armed forces. Few, outside officials and the small numbers of military, would countenance the idea of Kuwaitis actually having to fight, even fewer that Kuwaitis should go out and seek jobs for themselves. Any suggestion that the government cannot afford to continue paying salaries and subsidies to all its citizens is met with blank incomprehension.

This apparent indolence has deep roots. In the 1950s and early 1960s Kuwait was the first and most conspicuous of the Gulf states to flaunt its oil wealth before an envious world. Old photographs show Kuwaiti families in shiny Cadillacs enjoying the good life at drive-in cinemas in the desert. The age of opulence had arrived. Oil money bought anything and everything. Armed with that belief, and encouraged by an indulgent state, Kuwaitis unwittingly took to heart Hilaire Belloc's dictum "Tis the duty of the wealthy man to give employment to the artisan".

Underneath the suave exterior the results of taking Belloc too literally are now becoming painfully clear. The sap is draining from the national fibre. Like its oil-rich Gulf neighbours, Kuwait, in the words of a US-educated Kuwaiti banker, "is a society of takers", a nation of "couch potatoes" where 93 per cent of the working population draw monthly salaries from the state in the sure knowledge that the constitution entitles them to a "job".

For 40 years Kuwaitis have sat back and snapped their fingers at the foreign worker. The government has paid the people's salaries, bailed them out when they lost money, and dipped into two-thirds of its reserves to help deliver them from Iraqi occupation.

Even then, the state's indulgence did not stop. Far from pulling itself and the country up by its bootstraps, the government buckled to public demands for more handouts. It sanctioned a 25 per cent across-the-board increase for all Kuwaitis employed in the public sector, and at the initiative of the Amir himself cancelled all its citizens' outstanding bills for electricity and water supply.

Today, the nation's state of health is bluntly summed up by Professor Rasha Al-Sabah, a niece of Kuwait's Amir Sheikh Jaber Al-Ahmad Al-Sabah and under-secretary at the ministry of higher education, who says that Kuwaitis have grown up convinced the state exists to look after them for life.

Meantime, more babies are being born. For the last five years Kuwait's national population – some 720,000, of whom 60 per cent are aged under 21 – has been increasing at an average 3.7 per cent a year, among the highest rates in the world.

With the state already sinking 84 per cent of its annual budget into salaries and subsidies, this year's windfall oil revenues of $5bn to $6bn are badly needed to maintain the cash-flow. But all that buoyant oil prices achieve is to prolong the mood of complacency. They do nothing to instil a willingness to work, or to inject life into a moribund private sector.

To ease economic "restructuring", government officials talk earnestly of "redeploying" Kuwaitis away from the public sector into private companies. They say the government will offer to pay 50 per cent of the Kuwaiti's salary as an incentive to private-sector companies if they would employ nationals rather than foreigners. But the more realistic Kuwaitis dismiss these statements as mere slogans.

Sulaiman Mutawa, a management consultant and former planning and information minister, says "redeployment has never worked except in economies which are expanding and with people who have skills". Neither condition applies to Kuwait's private sector, or to most of its citizens in public-sector jobs.

Nasser Al-Rodhan, the finance minister, recently broached the idea of lowering the tax rate on foreign minority partners of local companies. This was described as "an important step" on the way to attracting foreign investors.

The business community's reply is that for a step to be important the government would have to demonstrate serious intentions to overhaul the legal system to allow foreign investors a majority share of local companies. Private foreign investors would also want to employ the cheapest qualified labour, who would certainly be foreigners. They would also want the right to own land, float shares on the local stock exchange, and bid for government contracts.

For all its inertia, Kuwait is arguably the most stable of the oil-rich Gulf states. But this is due to oil money and the presence of US troops more than anything Kuwait has done for itself.

Money and friends do not ensure Kuwait's defence. Western military analysts caution that Kuwait will have to work hard just to satisfy the limited goals of its defence programme by the target date of 2002. This assumes its armed forces can act as a tripwire, to hold up and damage a concerted Iraqi attack for 48 hours until help arrives.

"The west is not going to be happy having just sold Kuwait a lot of fancy equipment if the Kuwaitis are not able or willing to use it," warned one senior diplomat.

The subtle checks and balances of clan and tribe are the foundation on which Kuwaiti society is built. They help to bind the country, to preserve the appearance of unity within the ruling Al-Sabah family, and to smooth the working relationship between the government and the National Assembly. But fear of disturbing these checks and balances also make for indecision and immobility.

Businessmen, bankers and diplomats all say the success of government-backed candidates in last October's general elections provide the best opportunity since the end of the Gulf war for more co-operation and less confrontation between government and legislature.

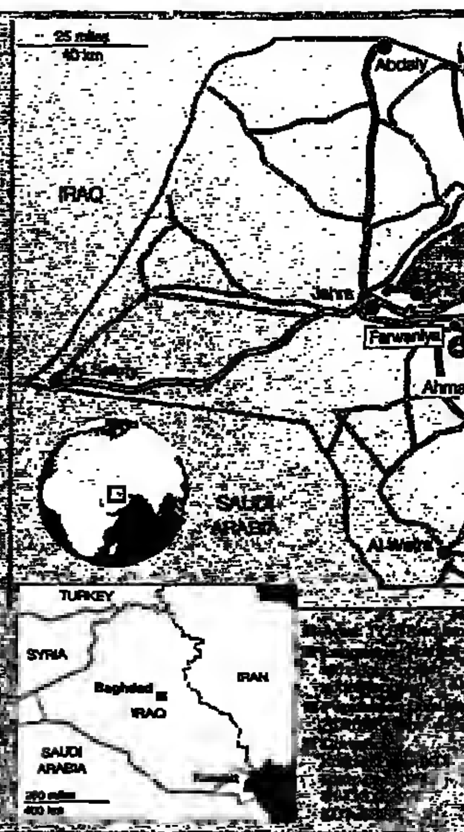
But if the government is serious about social renewal and economic reform, it has to demonstrate a quality of leadership so far lacking.

Failure, suggested one of Kuwait's leading economists, will mean that "in five to 10 years there will be in Kuwait a repeat of the social unrest that has plagued Bahrain for the last two years".

From past and present experience, the government will try to buy off the people – if it still has the money. If not, senior diplomats warn, predator neighbours would exploit the power vacuum and grab Kuwait's one real asset – oil. "A case," remarked one, "of back to the future."

Economic summary

	1996(e)	1997(f)
Total GDP ($bn)	28.0	29.2
Real GDP growth (annual % change)	2.0	2.8
GDP per head ($)	[illegible]	[illegible]
Inflation (annual % change in CPI)	3.0	3.0
Petroleum production (million barrels per day)	2.07	2.10
Petroleum reserves (billion barrels)	96.0	96.5
Money supply, M2 (annual % change)	[illegible]	[illegible]
Foreign exchange reserves ($bn)	4.1	4.2
[illegible]	[illegible]	[illegible]
Current account balance ($bn)	5.2	4.1
Merchandise exports ($bn)	[illegible]	[illegible]
Merchandise imports ($bn)	7.5	7.9
Trade balance ($bn)	[illegible]	[illegible]



Government and constitution

Head of state	The Amir, chosen from the al-Sabah family. Currently Sheikh Jaber al-Ahmed al-Sabah, who acceded in 1977
Prime minister	Sheikh Saad Abdullah al-Salem al-Sabah
Legal system	Based on constitution of 1962, as amended or suspended by Amiri decree
Legislature	Unicameral National Assembly of 50 elected members plus appointed cabinet ministers, except members of the Al-Sabah, with a limited franchise of "first-class" Kuwaiti males
Executive	Power is exercised by the Amir through a Council of Ministers (last appointed October 15 1996) headed by a prime minister who is chosen by the Amir after traditional consultations
Political groupings	No political parties are allowed, although informal groupings exist. The largest are a group of independents, many close to the ruling family; and two Sunni fundamentalist groups (Islamic Constitutional Movement and Islamic Popular Grouping, also known as the salafi). The Kuwait Democratic Forum is the largest secular group. There is also a Shia group. Most deputies sit as independents and many have strictly tribal loyalties.

■ The economy • by Robin Allen

Postponing the evil day

A fault-line is running through the country's economic structure

Economic analysts in Kuwait would have it that although the country owns 10 per cent of proven global oil reserves, it does not yet possess an economy.

By this they mean that oil is the sole engine pulling Kuwait's train, with its 720,000 citizens living off oil revenues in the first-class compartments while being waited on by expatriates, who outnumber Kuwaitis almost two to one.

According to Jassem Al-Saadoun, managing director of Al-Shall Economic Consultants, 93 per cent of Kuwaitis draw their salaries directly from the government and the remaining 7 per cent are indirectly connected to the state budget. "The state contributes no less than 75 per cent of GDP," he says. "We have," continues Mr Al-Saadoun, "no viable non-oil industrial, manufacturing or services sectors to yield hard currency or employ local manpower. Meanwhile, the private sector has between KD40bn and KD60bn invested overseas."

Such comments do not help the country's image and they anger government officials. In reply, and urged on by the International Monetary Fund and the World Bank, they insist the government has already started to cut the budget deficit, which it plans to eliminate by 2000, and that it intends to pursue a wholesale restructuring of the economy to wean Kuwaitis away from state handouts and to create a self-supporting private sector.

However, Kuwaiti bankers, businessmen and senior diplomats agree that deficit cuts so far are due to higher oil revenues this year rather than to cuts in expenditure. Buoyant oil prices, they say, are seducing the government into postponing the evil day when it has to tell an incredulous population that cradle-to-the-grave welfare benefits are no longer available; that the state can no longer afford to pay full monthly tax-free salaries of $3,000 and upwards for part-time ministry jobs.

Finance ministry figures show that for the five fiscal years to June 30 1996, state revenues have totalled KD11.3bn against expenditure of KD22.7bn, leaving a deficit of KD11.4bn, or 142 per cent of the country's 1995-96 gross domestic product (GDP).

Since 1992-93, the oil industry has accounted for an average 86 per cent of annual budget revenues, and last year was responsible for 94 per cent of all Kuwait's exports. Non-oil exports of a US$700m have remained stagnant over the same five-year period.

The projected deficit for the 1996-97 budget is KD1.45bn, although this could well fall if oil prices stay high. This deficit, which includes payment of KD300m to the country's overseas assets through the Reserve Fund for Future Generations (RFFG), could easily be covered by income from overseas assets which, however, were never intended for this purpose.

Only about one-sixth of the accumulated deficit to 1995-96 has been spent on capital or development projects. The rest, 83.5 per cent, has been spent on salaries and subsidies for Kuwait's pampered citizens.

Even Kuwait Petroleum Corporation (KPC), the flagship of Kuwait's oil wealth, "could run its marketing operations with six people and a fax machine", said a US-educated Kuwaiti banker. "Instead, it has a bureaucracy running into thousands."

Anomalies in the government's figures of public finance distort the state's cash-flow position. Some positive items are omitted. These include, firstly, the country's overseas assets managed by the Kuwait Investment Authority (KIA). The total of these is a closely-guarded secret, but they are understood to have been rebuilt to more than $45bn since the 1990-91 Gulf war.

Second, up to the middle of last month, the KIA had also added – under the government's privatisation programme – $1.7bn to its assets from the sale of state holdings in 17 companies. The KIA has yet to sell its holdings in another 26 companies.

Third, by the end of this year it will have paid off all of the 1991 $5.5bn sovereign loan. This will reduce the country's external debt to just $156m of US Export-Import Bank loans and $571m of other export credit agency loans, according to KIA's ebullient managing director, Ali Rashaid Al-Bader. All external debts will have been repaid by 2001.

A fourth factor in the government's favour is that oil revenues for 1995-96 and 1996-97 are predicated on a price of $13 a barrel, so windfall oil revenues profits are providing another statistical "cushion of comfort" worth some $3.8bn for the 12 months to last June.

Fifth, official revenue figures also omit dividends paid to the state by Kuwait Petroleum Corporation. In 1995, these amounted to $2.4bn, more than twice the previous year. KPC also has liquid assets of some $13bn, according to the KIA. The central bank and the Kuwait Fund for Arab Economic Development also have deposits, cash balances and liquid securities amounting to some $9bn.

Lastly, according to senior diplomats, many ministries do not spend their annual budget allocations.

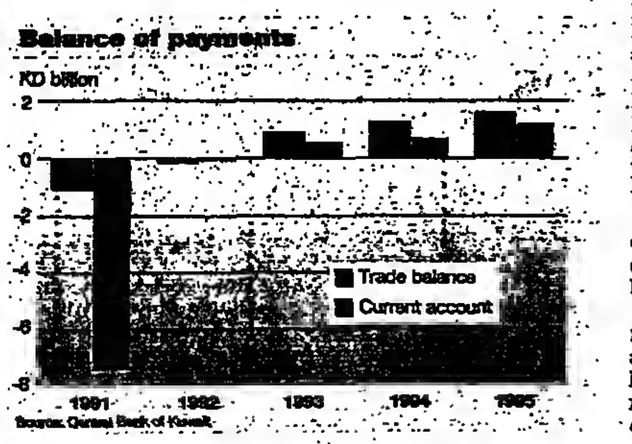
However, even if all these mathematical plus-points are added together, they cannot hide the fault-line that is running through the country's economic structure. Worse, economists say, "the incremental cash perpetuates the illusion of well-being and adds to the national complacency".

There are also hidden cash debits, notably capital expenditure arising from the supplementary defence procurement budget. This amounts to KD3.5bn over a 10-year period from 1992 to 2002. Second, the government does not release estimates for annual inflation, which economists put at 2 to 3 per cent, because state salaries are index-linked. Any official acknowledgement of inflation would mean adding to the government's current expenditure beyond their present levels of some 50 per cent of GDP.

Economists and others say ministers' use of words such as "privatisation" and "economic restructuring" are empty slogans, and their statements "mere posturing". For their part, senior officials blame the outgoing National Assembly (parliament) for not having acted on draft proposals agreed by the government's Higher Committee for Economic and Financial Reform.

At the heart of the government's position is a determination not to be steamrollered into reforms. "Kuwait will not emulate privatisation plans followed by other countries," the finance minister, Nasser Al-Rodhan, was reported to have said at the end of October, except as they conformed to Kuwait's "capacity and circumstances". The IMF and the World Bank, he added, "lack experience in Kuwait, which is not a debtor country".

Balance of payments



Source: Central Bank of Kuwait

■ Foreign affairs and defence • by Robin Allen

Cultivating the art of national survival

Kuwait could face a greater problem if US military attention was diverted

Gone are the heady days when Kuwait trumpeted the *cause of pan-Arab nationalism* and lambasted the west for its perceived bias against Arab countries. Kuwait's efforts are now directed at maintaining international – principally US – backing to confront the military threat from Iraq. Its foreign policy can be summarised as cultivating the art of survival.

Drawing from 35 years of experience which includes bitter memories of the August 1990 invasion, Kuwait remains unimpressed by Iraq's recognition two years ago of Kuwait's full sovereignty.

"Kuwait *has* to be *very* careful," warned one senior diplomat. "On no less than three occasions before they invaded, the Iraqis indicated Kuwait should consider ceding Bubiyan and Warbah islands at the approach to Iraq's Shatt Al-Arab waterway. The Iraqi claw keeps probing. Even now, shootings and raids across the borders continue every month. Under these conditions Kuwait's security is inextricably bound up with the west."

Another diplomat said: "Kuwait has no choice over *its* neighbours. There *is* a total block on any short-term improvement in relations with Iraq, although in the longer-term the government is very sensibly concerned that the west should forge a strategy that does more than simply react to Saddam Hussein's every move."

By contrast, Iran's policies, notably its military build-up, "worries Kuwait", diplomats say. "But Iran has to be dealt with by something closer to the European Union's 'critical dialogue' than by the US's approach of treating Iran as a pariah state."

Although the dark clouds hovering over the Amir's office in Bayan Palace have Iraq written all over them, "Kuwait does not have a personality obsession with Saddam Hussein. It is more fatalistic," said another senior diplomat.

"We look at Iraq in much the same way as people in San Francisco regard the prospects of an earthquake. They know they are living on a fault-line," said Tarek Sultan, a Kuwaiti investment banker. "It does not stop them getting on with the business of living. We have to do the same."

Diplomats believe Kuwait is better off now with a Saddam Hussein *whose track-record* is well known and speaks for itself, and who is being contained, than before the war when Iraq's rhetoric was more successful at hiding its real intentions. But they emphasise there are no hard guarantees that Kuwait *will still be receiving the* same level of allied military support in 10 years, so its strategy has to include encouraging Iraq to give up its claim.

For the time being, however, the thrust of Kuwait's foreign policy is focused on maintaining international support against Iraq at five levels:

- the US;
- the five permanent members of the UN Security Council, with all of whom, bar China, it has defence agreements;
- subscribers to the Damascus Declaration, which groups Gulf countries plus Syria and Egypt;
- collective security arrangements between the Gulf states themselves;
- Kuwait's own resources.

> 'There is a big gap between conceiving and implementing a defence programme'

The last three, senior Kuwaiti officials acknowledge, are for all practical purposes worthless without the first two.

For the time being at least, the US in particular, supported by Britain and France, have by their actions demonstrated they will not tolerate threats to Kuwait's territorial integrity. It remains, however, that Kuwait's problem could be greater if the US was called on to confront two military crises simultaneously, for example in the Gulf and the Korean peninsula.

Kuwait's defence policy and its defence strategy take this into account. The policy has three elements: good intelligence on Iraq's military intentions and capabilities; as much early warning as possible in order to mobilise and call in help so as to deter an Iraqi strike; and, as a last resort, rapid deployment of its own forces to contain an Iraqi advance and buy time until help arrives.

Its defence strategy is dictated as much by lack of space as any other factor. Kuwait has to deploy its forces forward.

The local commander of US ground forces, General Robert Ivany, pointed out *that Iraq, using its rail net*work, can even now mobilise in a matter of days north of the border. Analysts agree, but say Iraq has limited ability, in terms of logistics and rations, to project and sustain an attack. Others point out that feeding his troops *was never one of Saddam* Hussein's priorities. "Either eat in Kuwait City or starve to death on the way there or on the way back" is much more Saddam Husein's way of thinking, one diplomat observed drily.

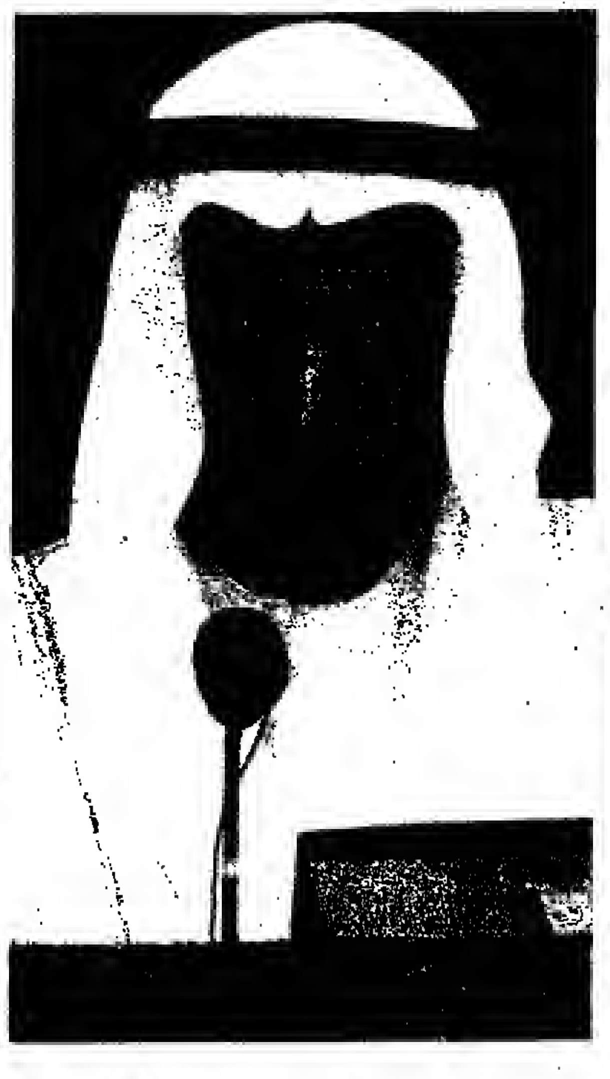
To be effective, Kuwait's forward mobility pre-supposes a high degree of fitness and training among Kuwait's 25,000-strong armed forces. "Six years ago, Kuwait did not have any armed forces to speak of," one military analyst said. In 1992, however, it embarked on a 10-year programme to *develop a credible defence*.

Results are mixed at the half-way stage. In terms of re-equipment, it is becoming impressive enough; in terms of numbers and training, considerably less so. "There is a big gap between conception on the one hand and implementation and follow-through," said one senior diplomat cautiously. In other words, too much bureaucracy, too many officers, not enough motivation and too few soldiers.

Lack of manpower and motivation, the curse of oil-rich states, are abiding prob*lems. The armed forces,* who have to be Kuwaiti nationals, are not up to full strength. Kuwait has a pool of only some 100,000 of recruitable age to draw on. Diplomats say that unless the government cuts a deal with at least some of the 120,000 stateless "bidoon" who are deprived of citizenship – offering them nationality in return for a sustained period of loyal military service, for example – the manpower problem will persist.

The government imposes one-year conscription, but conscripts cannot learn to use Patriot missile systems or the computer technology in advanced battle tanks. Professional Kuwaiti soldiers are paid less than the police – who receive about KD800 a month – who are paid less than the National Guard. A civilian bureaucrat can earn more, and lead a more comfortable life, than a soldier.

Kuwait's strategy is aimed at being able, by 2002, to "inflict considerable damage and hold up a concerted Iraqi attack for 48 hours", say western advisers. Their general, and generous, assessment is that Kuwait's political leaders will need to show more resolve if that target is to be achieved.



Ahmad Al-Saadoun (left), whose re-election as Speaker is under challenge; another challenge (above) as women demonstrate in support of their claims for franchise; Shia MP Hussein Al-Qallaf (below) addresses the National Assembly

Pictures by Gustavo Ferrari

■ Politics • by Robin Allen

Now conciliation beckons

The newly-elected parliament is seen to be free of backward-looking obsessions

For the first time in more than 30 years, Kuwait has a National Assembly (parliament), elected for a four-year term last October, with a majority that may be more conciliatory than confrontational towards the government.

Kuwait is the only Gulf country to have an elected legislature – a source of great pride among Kuwaitis; of frequent irritation to the present generation of the ruling Al-Sabah family; and bouts of apprehension from more authoritarian governments in neighbouring Bahrain and Saudi Arabia.

But parliamentary democracy is not a natural offspring of traditional tribal structure, even though Kuwait's was as much a trading society as a desert one. Not surprisingly, Kuwait's democracy has a chequered history.

Parliament exists as a basic right under the 1962 constitution agreed between the-then ruler, Sheikh Abdullah Al-Salem Al-Sabah, and the dominant members of the merchant community. Sheikh Abdullah, widely regarded as a "wise, liberal and generous man", was the father of today's crown prince and prime minister, Sheikh Saad Al-Abdullah Al-Sabah, who is not considered to possess all of his father's qualities, but whose style is crucial when it comes to forging a working relationship with the National Assembly.

It is an irony of history, given the tension today on the Iraq-Kuwait border, that an important factor in the birth of democracy in Kuwait was the military threat from Iraq. But this was not sufficient to prevent early strife between parliament and government, mainly because grey areas in the constitution were exploited by successive governments to reinforce their control over political activity, and to enlarge the powers of the state at the expense of the more liberal spirit of the constitution.

On two occasions, in 1976 and 1986, parliament was dissolved amid mutual acrimony. In 1985, at a point when the Iran-Iraq war was coming perilously close to Kuwait's borders, a rebellious Assembly forced the resignation of the justice minister, Sheikh Salman Al-Duaij Al-Sabah, because of his alleged dealings in the unofficial and illegal Souk Al-Manakh stock market which had crashed three years before.

The humiliation heaped on a member of the ruling family was too much for the Amir, Sheikh Jaber Al-Ahmad Al-Sabah, particularly since parliament's unruly behaviour coincided with Iranian-inspired instability inside Kuwait itself, including an attempted assassination of the Amir.

What is now generally forgotten by the outside world, but remains vivid in the memories of Kuwaitis, is that parliament was still in abeyance when Iraq invaded *Kuwait on August 2 1990. In* January of that year, the government had had to use tear-gas to put down street rioters demanding the recall of parliament.

After liberation, the Amir and the prime minister delayed 18 months before reluctantly succumbing to the combined pressures of the US administration and Kuwaiti voters to allow elections for a new parliament.

It did not help Kuwait's economic or political reconstruction that uppermost in the minds of MPs returned to parliament in the October 1992 elections, was the conviction that the government and ruling family were to blame for Kuwait's unpreparedness when Iraq invaded in August 1990. They were also held responsible for the general mismanagement of Kuwait's affairs for all of the previous six years.

So the parliament elected last October is seen as the first to be free of the backward-looking obsessions which have dominated much of the Assembly's time for the last four years. This could provide the government with a golden chance to push through its much-vaunted programme of economic reforms.

But no one can be sure. Kuwait's democracy is not exactly in the western mould. Franchise is restricted to 107,000 males aged over 21, some 15 per cent of the national population who can prove their citizenship back to 1920, plus a few thousand who have been naturalised since the last *elections* in 1992. *Women are* not entitled to vote, although they make up more than 50 per cent of the national population of some 720,000, and 32 per cent of the national labour force.

Optimists base their hopes on the fact that government-backed candidates won 30 of the 50 seats in the general elections held on October 7.

With political parties as such banned, the MPs represent five main trends: a large group of "independents", many of them close to the ruling family; the Islamic Constitutional Movement; arch-conservatives under the "Salafi" banner; Shia members representing Kuwait's 30 per cent Shia population which receives much of its spiritual inspiration from Iran; and more liberal-minded members of the Kuwait Democratic Forum.

Half of the new parliament consists of re-elected MPs. Of the rest, 19 are first-time members and six have parliamentary experience from the 1980s.

According to western diplomats, many of the 30 or so "pro-government" members are "service MPs", whose primary concern is to ensure the government meets their constituents' immediate needs such as better roads and drainage, as well as to maintain existing cradle-to-the-grave welfare benefits, rather than to understand and support priorities for economic restructuring.

Much of the Assembly's time so far has been spent in arguing who should be their Speaker – Ahmad Al-Saadoun, the incumbent and a long-time adversary of the government, and Jassem Al-Khorafi, a former finance minister and pro-government member, who lost the vote but is still challenging the re-election of Mr Al-Saadoun.

"The overriding priority now," said Suleiman Mutawa, a former planning and information minister, "is for parliament to act on the proposals put by the Higher Committee for Economic and Financial Reform. But the initiative has to come from the government." MPs in the previous parliament had initiated studies on the privatisation of telecommunications, "but stopped it half-way through because the government said it wanted to study things 'globally'".

A western diplomat said: "The only near-certainty is that with the approach of the new year holidays, followed by Ramadan (the Islamic holy month of fasting in daylight hours), and the National Day holidays in February, activity in both the government and the National Assembly will be rather subdued for several months."

All of which might tend towards a more passive relationship between government and parliament, or more time for MPs to argue among themselves.

■ Population and employment • by Robin Allen

A minority in their own country

All nationals expect to be paid, regardless of whether they actually work

At the outer security entrance to one government ministry stands a prefabricated hut of the kind used by contractors on building sites. Inside, barely visible through a thick haze of tobacco smoke, six bleary-eyed youths pass the time of day gossiping and flipping through magazines.

For a few hours each morning they are in charge of vetting the credentials of anyone wanting to enter the ministry. They manage, however, to disguise this simple fact by ignoring visitors, disclaiming any knowledge of senior officials, and declining to dial ministry extension numbers. Responsibility for preparing the chit, without which a visitor cannot pass through to the next stage of security, is shunted from one youth to another.

They are the public image of a new generation of Kuwaiti school-leavers, put into menial state jobs to satisfy ministerial assertions that unemployment among nationals does not exist. Even by the standards of this one ministry, which like its peers in other Gulf countries is not exactly known for its depth of talent, these six stand out as a grim reminder that oil money and a cradle-to-the-grave welfare state system do not make for an educated people or a healthy society.

The existence of this sad phenomenon is amplified by Professor Rasha Al-Sabah, a niece of Kuwait's Amir Sheikh Jaber Al-Ahmad Al-Sabah, and an extraordinarily gifted and vibrant academic-turned-administrator, now under-secretary at the ministry of higher education.

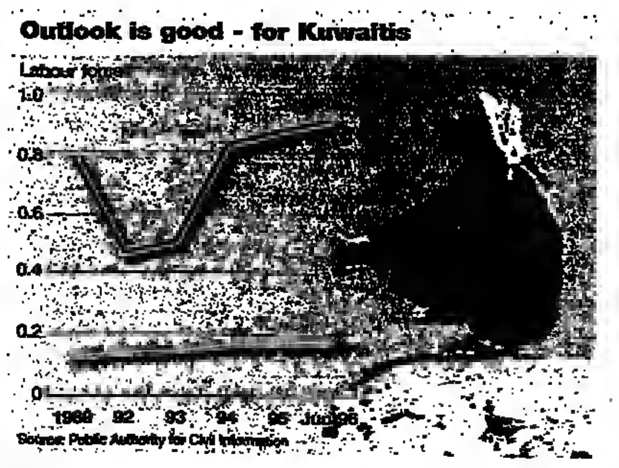
Professor Rasha, (she uses the title "professor" in preference to the more traditional "Sheikha"), is a British and US-educated historian and linguist with a doctorate from Yale in medieval Italian and the works of Dante, Petrarch and Boccaccio.

While staunchly emphasising the government's serious intentions to stop the rot, she makes no bones about the social and labour ills confronting Kuwait.

"Individual Kuwaitis have grown up convinced that the state exists to put on their nappies and to be their nanny for the rest of their lives," she says. "Both individuals and the government have to look at a new educational system and labour structure which encourage self-reliance and promotes small private sector businesses."

Even official statistics, which many critics are quick to dismiss because they perennially mask unpleasant realities, reveal some startling facts. They show, firstly, the actual and growing population imbalance between national and foreigner; second, the tiny numbers of Kuwaitis working in their own private sector; and third, the high percentage of Kuwaitis about to come onto the labour market to further increase the strains on the state budget.

Outlook is good - for Kuwaitis



Source: Public Authority for Civil Information

Nationals made up less than 36 per cent of the total population of some 2m at the end of last June. The imbalance may be less serious now than in 1989, the last full year before the Iraqi invasion, when Kuwaitis were an even smaller minority – 27 per cent – in their own country. But the expatriate population is growing at more than twice the rate of the Kuwaiti.

The total labour force of just under 1.1m consists almost entirely of foreigners. Kuwaitis make up only 176,000, or 16.2 per cent, of the total. According to Al-Shall Economic Consultants, this is "the lowest ratio ever registered". More than 92 per cent of those who work do so for the government.

Although national unemployment is officially put at a mere 1.4 per cent, "under-employment" – like the youths at the ministry – is reckoned by economists to be as much as 55 per cent.

About 44 per cent of Kuwaitis are aged under 14 and about 60 per cent under 21. But education will receive only 8.36 per cent of the government's 1996-97 budget, while the state already spends almost 84 per cent of its annual budget on index-linked salaries and subsidies for its pampered population. Inflation, and the arrival each year of some 7,000 school-leavers and university graduates onto the labour market, are pushing this figure inexorably upwards.

Annual allocations for the higher education ministry are only KD17.5m, less than one-third of the amounts allocated to each of the information ministry and the national guard. It is even less than the cabinet spends on its secretaries and support staff.

But statistics do not show the damage being inflicted on the moral fibre of the country by the presence of large numbers of unemployable Kuwaitis, dependent on the state for their survival.

All nationals expect to be paid monthly salaries by the state regardless of their qualifications, or even whether they work. The central bank, according to its governor, Sheikh Salem, "has to spend between nine and 26 months giving English courses to graduates before they are qualified to join the staff. Meantime, we have to pay them as though they were full staff members."

Many of the graduates knocking at the doors of the central bank, according to Ahmad Al-Baghdadi, associate professor of political science at Kuwait University, are the cream of the university, a good example of some of the state's lopsided priorities.

هكذا من الأصل

■ Petrochemicals • by Robert Corzine

Expansion is the aim

Development of this market may prove useful if oil revenues slide

Kuwait has been relatively slow off the mark, compared with other Gulf oil producers, to develop its petrochemical industry. But officials say they are keen to accelerate the pace of expansion, with work currently under way on a new preliminary strategic blueprint for the sector.

For most of its 33-year history, Kuwait's Petrochemical Industries Company (PIC) has been mainly a manufacturer of relatively low-value products such as urea, ammonia and fertiliser for export. Its move upmarket to higher-value products is based on the $2bn Equate ethylene glycol and polyethylene joint venture with Union Carbide of the US, now under construction, and a proposed $1bn-plus aromatics plant which is under study.

Officials say the strategic decision to move more deeply into petrochemicals fits in well with PIC's overall desire to boost the value of Kuwait's crude oil resources. The ethane gas that will feed Equate's 650,000-tonnes-a-year ethylene cracker will come from the group's liquefied petroleum gas plant at the nearby Mina Al-Ahmadi refinery complex.

Issa Al-Mazidi, the oil minister, notes that a deeper involvement in petrochemicals should also help protect Kuwait revenues should the price of crude oil fall.

The competitive advantage of Equate and the other petrochemical projects under study lies in the low cost base. "With olefins and aromatics setting a base we will be the cheapest producer in the Gulf," says Abdullatif Al Haddad, PIC's deputy chairman.

The main markets for the plant's output will be Asia and Europe. But PIC officials acknowledge that, unlike its crude oil and refined products businesses, Kuwait does not have any relevant commercial experience in selling such products in complex world markets.

Officials say they cannot rule out the possibility that Kuwait might in future tackle petrochemical projects without a foreign partner. Last month, joint venture talks between PIC and Amoco, the big US oil group, on a $1bn-plus aromatics scheme to manufacture paraxylene, benzene and toluene were called off. At the time, PIC executives said other potential partners had come forward, although one option was for Kuwait to proceed on its own.

Officials say the nature of the petrochemical industry is such that they are not seeking a single strategic relationship with a western chemical company. "Union Carbide, for example, is not interested in aromatics," notes Mr Al-Haddad.

Future PIC projects will probably be based on similar debt and equity financial arrangements as those put in place for Equate.

Although talks with the US Exim Bank failed to reach an agreement, PIC was able to raise more than $1bn through a consortium that included six Kuwaiti commercial banks, a Kuwaiti Islamic bank, three US banks and five regional banking and investment groups. It was the first major project in Kuwait to be funded in such a way.

Further progress on the aromatics plant to be built alongside Equate awaits the completition of a detailed feasibility study. But officials say work should proceed quickly if the project is given the go-ahead.

There has been considerable progress this year on a smaller petrochemical scheme. Work on a $160m polypropylene plant is said to be at the half-way stage, with completion expected next summer.

As with all major projects in Kuwait, Equate will be judged not just on its financial performance but on whether it serves the wider national goal of providing additional jobs for Kuwaitis. The process of "Kuwaitisation" is well under way, says Mr Al-Haddad. At present a quarter of the Equate workforce are Kuwaiti nationals.

But finding suitable Kuwaitis has proved to be a problem, according to Mr Al-Haddad. "We just don't have enough Kuwaitis with the right qualifications." But he said Union Carbide has agreed to a large-scale training programme for Kuwaitis.

Although PIC's emphasis is on its domestic expansion, officials say they cannot rule out making some future investments abroad. "I see no reason why not if it serves our strategic purpose," said Mr Al-Haddad.

■ Oil • by Robert Corzine

Scars of war remain

Permission is being sought to raise production to finance rehabilitation of the industry

The damage caused to Kuwait's oil industry during the Iraqi occupation has been largely repaired, but the sector still bears the scars of the ordeal, officials say.

Last month, Issa Al-Mazidi, the newly-appointed Kuwaiti oil minister, said the country, which currently produces 2m barrels a day, was keen to secure "a just production level" close to its capacity, which he claimed was 2.5m b/d.

"We believe Kuwait should have a just quota or a right to produce above the Opec ceiling," he said at the end of the group's Vienna meeting. The higher quota was needed because Kuwait still had to make large capital investments as part of the rehabilitation of its oil sector.

The timing of his statement, just days after Iraq dropped all opposition to the United Nations oil-for-food plan, was an indication of Kuwait's sensitivity to events in bigger, neighbouring oil producers.

"Kuwait has to decide if it wants to continue to play with the big boys in Opec," says one observer of the industry. To do so it will have to expand its surplus capacity even further. Present plans call for capacity of around 3m b/d over the next five years or so.

But it is also considering whether to match the rise in crude capacity with an increase in refining capacity. Hani Hussein, head of marketing at Kuwait Petroleum Corporation (KPC), says the company is fully committed to "going full blast and building a very sophisticated and competitive refining operation that will offer superior, sustainable performance".

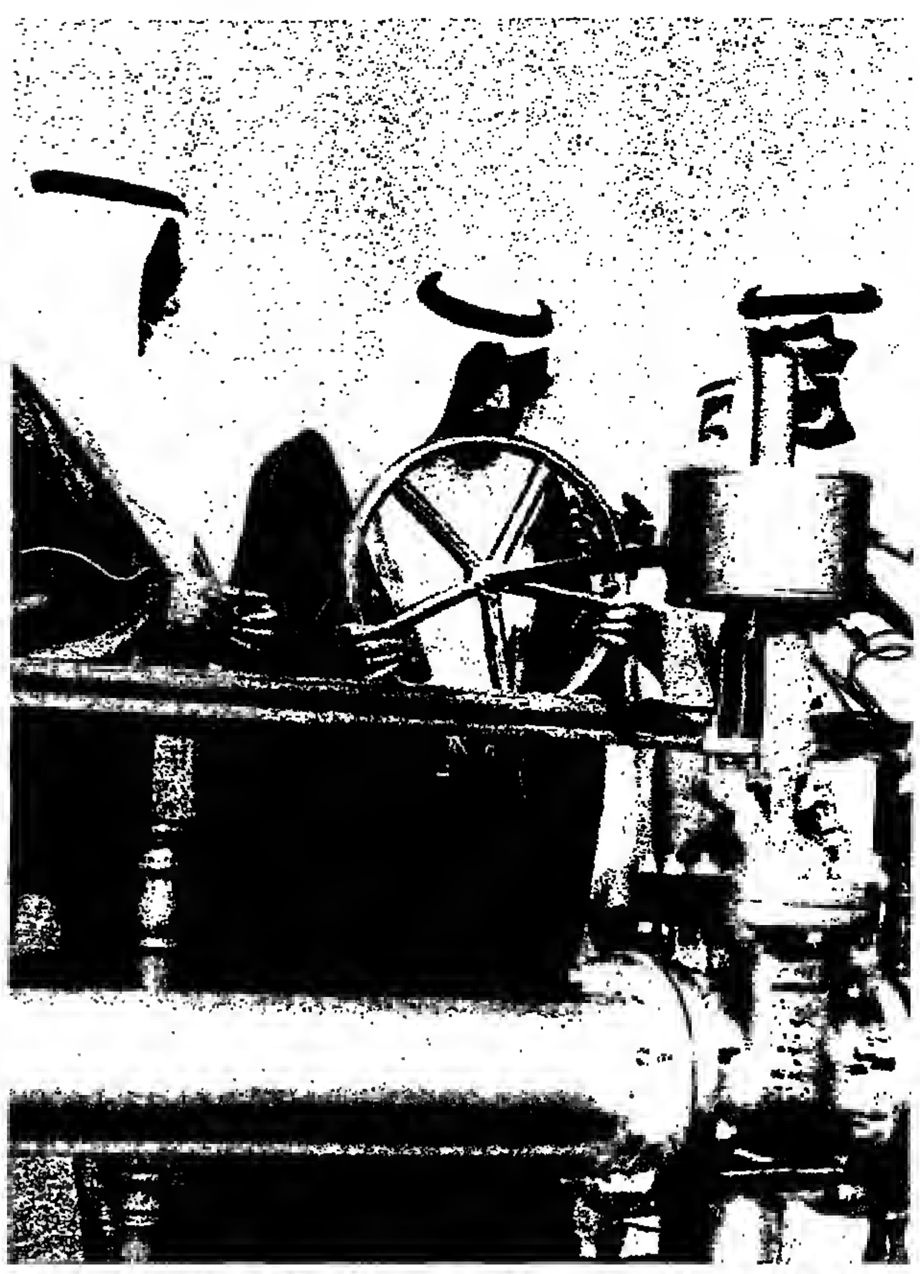
The upgrading involves a small increase in the company's domestic refining capacity. "But we will have to look long and hard at the next step, whether we add major capacity," said Mr Hussein.

Plans to build three Asian refineries – in India, Thailand and Pakistan – are at various stages of study or agreement. All would run on Kuwaiti crude, a prerequisite to new foreign investments in the energy field, according to KPC executives.

Kuwait's recent sale of its interests in Santa Fe, the North Sea oil explorer, for $1.2bn was part of the realignment of foreign oil investments by KPC, and does not herald a withdrawal of Kuwait from overseas energy interests, say officials.

"The North Sea assets were non-core, and not of strategic importance to Kuwait," according to Seham Rezouki, KPC's managing director in charge of finance, administration and external relations.

But the Santa Fe sale does reflect a new focus. It requires that future investments abroad be linked directly to Kuwait's oil production, either by securing market share or by adding value to the crude oil.



Golden anniverary: The Amir, Sheikh Jaber Al-Ahmad Al-Sabah, turns the ceremonial golden valve earlier this year to mark 50 years of Kuwaiti oil exports Picture: Gustavo Ferrari

■ Banking • by Robin Allen

Mixed report on recovery

Growth outside retail and import business has remained stubbornly slow

Kuwait's banking sector has continued its post-Gulf war recovery, sustained by renewed US commitments to local and regional stability. However, balance sheet growth relies even more heavily on lending to the government, and to consumers for their personal needs, than it did in 1989 before the Iraqi invasion.

Recovery outside the traditional retail and import business remains slow. Too often, as Moody's – the credit rating agency – points out in its latest review of one local bank, management has suffered from "constant interference by shareholders", which prevents bank executives from making necessary changes.

By the end of last September, commercial banks' total assets were still only 1 per cent above their pre-war level of seven years ago, and bank loans to private-sector customers only 60 per cent of their 1989 levels.

According to the central bank, total bank loans for private-sector capital investment has fallen by 17.3 per cent so far this year compared with 1995, and is less than half what it was in 1989.

The government is still by far the largest single bank customer. By the end of the third quarter this year, claims on the government in the form of the so-called Difficult Debt bonds, and other conventional, public debt instruments amounted to KD4.7bn, or 42.3 per cent of total assets, compared with 10.8 per cent in 1989. Claims on the private sector made up another 30 per cent of banks' total assets, while banks' foreign assets comprised a further 19 per cent.

The degree of Kuwaitis' dependence on the government, the individual's "lender of last resort", may be declining. But the fallout from the 1982 crash of the unofficial, and officially illegal, stock market known as the Souk Al-manakh, is still evident.

When the edifice of post-dated cheques collapsed it left Kuwaitis, including some members of the ruling family, with some $92bn of debts. Many cheques cancelled each other out. But the net indebtedness of some $22bn, and the collapse of confidence that ensued, tore the heart out of Kuwait's private sector economy.

The effect of the Difficult Debts Settlement Programme (DDSP), started in July 1992, has been felt in two main areas, the central bank governor, says Sheikh Salem Al-Sabah.

Firstly, the banking system "is now completely free of this problem". Banks have replaced their debts with government bonds which yield about 5.5 per cent. "What is more encouraging," Sheikh Salem said, "is that for the past 18 months most of the banks' income has been coming from business they generated themselves rather than from government bonds. Their net profitability has increased by almost 33 per cent, and is at its highest level since 1984."

Second, debtors themselves have now accepted that settlement under the government's plan is their only option if they are not to be taken to court.

Since last year, 83 per cent of the 10,423 debtors have either settled in full at a discount or have met the government's terms to repay by instalments. The government is taking 741 debtors to court, but is vague about how it is treating the remainder.

The return of stability and a measure of confidence has persuaded all banks to increase their capital, the better to compete for a slice of the retail business, particularly for new teenage depositors among the 60 per cent of the national population aged under 20.

Kuwait Finance House (KFH), an Islamic bank, has successfully exploited a growing desire among nationals to invest their money according to Islamic principles. With only marginal increases in capital and assets, KFH emerged last year as the most successful bank in the Gulf in terms of return on equity.

National Bank of Kuwait (NBK), nearly three times as large as its nearest rival, Gulf Bank, in terms of assets, customer and capital base, continues to be the sole Kuwaiti bank of international stature. But Gulf Bank can claim a higher return on assets in the first half of this year.

It is, however, NBK that for many months led a solitary and ultimately successful campaign to put Kuwait and regional banks on the international banking map. Its leadership in edging out the US's Export-Import Bank to put together the $1.2bn syndicated loan to build the Equate petrochemical complex was an example of what Gulf banks can do to exploit regional capital markets for a self-sustaining regional industrial venture.

There have been other syndicated loans to finance Gulf countries' oil and gas-based industries, but none led by a local bank for a venture as large as Equate.

In the end, Kuwaiti and Gulf banks' total direct and indirect exposure totalled nearly $2bn. NBK, joined by local banks, arranged a further $150m of working capital finance. In addition, NBK and the Gulf Investment Corporation group underwrote $540m of political risk insurance for the stake held by Union Carbide.

The syndication demonstrated that Arab regional banks could work together to raise both Islamic and conventional finance for Gulf industry. "This is where the future is for Gulf regional banking, in non-recourse project finance rather than equity finance," said one senior banker. "On a green field pre-construction project it is very difficult to sell equity finance. But the economics of the project have to stand up. Project finance is even more applicable for utility and other state infrastructure projects where uncertainties over product pricing make it very difficult to raise equity."

So far, however, NBK's role in Equate has not been followed up, and Kuwait's banks have yet to demonstrate they can establish and sustain a leading role in the development of regional capital markets.

Fall in Treasuries drags down Europe

GOVERNMENT BONDS

By Lisa Bransten in New York and Samer Iskandar and Richard Adams in London

US Treasury prices tumbled yesterday, sparked by overnight selling on Asian and European markets, and dragged most European markets down in their wake.

The yield on the benchmark 30-year Treasury was sent up nearly 13 basis points and past the 6.6 per cent level.

Near midday in New York, the long bond was 1½ lower at 98⅞ to yield 6.603 per cent while at the short end of the maturity spectrum the two-year note was down ⅛ at 99⅞ yielding 5.777 per cent. The March 30-year bond future fell 1⅛ at 113⅛.

Traders said the large amount of corporate debt issued in recent sessions had combined with the comments from Mr Alan Greenspan, the chairman of the US Federal Reserve, to provide investors with an excuse to sell.

Last week, Mr Greenspan questioned whether "irrational exuberance" had unduly escalated asset values – a comment that was interpreted as a sign that he was concerned about soaring US financial markets.

Mr Richard Gilhooly, a strategist at Paribas Capital Markets in New York, cited a report in the Wall Street Journal that questioned whether the Japanese would continue to support the US bond market with large purchases as another cause for the sell-off.

He said he had seen aggressive hedge fund selling and had heard about more selling from other dealers.

Mr William Shea, senior vice-president in fixed-income at Nikko Securities, said worries that Japanese buying would slow down simply gave investors an excuse to get out of long positions.

"When there is fear in the market, everything gets magnified," he said. "I think there is still a big commitment by the Far East to buy."

Ms Joanne Collins, a senior economist at Nomura in London, agreed. "We saw some decent buying of treasuries by Japanese investors", she said. "Traders seized the opportunity to buy at lower prices."

Mr Keith Edmonds, senior analyst at IBJ International in London, pointed out that although Japanese institutions were not selling foreign bonds, capital flows from Japan into overseas markets were nonetheless diminishing from their recent peaks.

Japanese investors bought Y1,674bn of foreign bonds in October, the largest amount bought in a single month since June 1995. They also increased their net purchases of UK gilts to Y130.2bn, compared with Y32.8bn in September.

Most European 10-year benchmark bonds fell yesterday, in the wake of Treasuries, by between ½ and a full percentage point.

Liffe's March long gilt future settled at 109⅛, down ⅞.

Mr Kevin Adams, a gilts strategist at BZW in London, said that only two events were likely to raise gilts out of their current trading range.

The first was the possibility of buying by UK investment funds reinvesting profits from the equities market. "Into the year-end, we know the liquid positions of UK funds are healthy, and they won't want to hold cash on balance," Mr Adams said.

The other possibility is that gilts could be boosted if increased optimism over the prospects for European monetary union pushes up the bond prices of other EU countries. "We may be dragged along in their wake," Mr Adams said.

However, analysts are pessimistic over future prospects for the convergence process which had been driving the yields of Europe's high-yielding bonds down towards those of German bunds.

Mr David Brown, chief European economist at Bear Stearns, pointed out "increasing reluctance by hard core Europe to include Italy in economic and monetary union".

Liffe's December future on 10-year Italian BTPs fell 0.68 to settle at 127.80, before reaching an intraday low of 127.36 in after-hours trading on Liffe's APT electronic system.

Ms Collins at Nomura said the markets were "now on hold until the weekend", when EU finance ministers are expected to discuss the so-called stability pact for countries participating in Emu.

Argentina acts to broaden its investor base

By David Pilling in Buenos Aires

Argentina this week issued a flurry of paper, including its first international offer of peso-denominated debt and a $500m domestic auction of two-year treasury notes.

The two issues, which came in addition to a DM1bn surobond placement on Tuesday, were aimed to broaden Argentina's investor base, and to take advantage of liquidity to prefinance 1997 requirements, estimated officially at $14bn.

The $250m international peso offering was led by Goldman Sachs, which bought the whole deal. It was described as innovative by traders, who said it would help underline market confidence in Argentina's fixed exchange rate. The offering carried a fixed coupon of 8.75 per cent, with interest to be paid every six months.

"The issue was definitely a success and the tight spread shows people are not worried about convertibility," said Ms Ingrid Iversen, debt strategist at UBS. Convertibility is the currency board system, in place since 1991, which fixes the peso at parity with the dollar.

The economy ministry said the euro-peso issue "was part of the government's strategy of gradually developing a peso yield curve, which can be used as a reference point for the private sector". Government officials said Argentina intended to build a peso yield curve up to 10 years.

"They need to have a couple more issues, taken up by the big American and European banks, before we can say there's a sense of confidence in peso paper," said Mr Jerome Booth of ANZ Bank in London. "But as time goes on people see less and less risk of a change in economic policy."

Because peso paper is rated investment grade, the issue was available to institutions that cannot normally buy Argentine notes. "It's a weird concept, but there are people who can buy peso paper who can't buy dollar paper," said Ms Iversen. "Over time, it is something Argentina might use to enlarge its investor base."

The economic team also made progress in deepening domestic capital markets with its first auction of Bontes, two-year dollar-denominated bonds. The $502.4m auction was subscribed nearly four times and set a coupon of 8 per cent, against expectations of 7.75–8.5 per cent.

Many private economists believe Argentina's financing needs could rise from the official estimate of $14bn to $16bn next year, particularly if its purse strings are relaxed in the run-up to October's mid-term congressional elections. But Mr Peter West, economic adviser to WestMerchant Capital Markets, is among this majority who believe this should be manageable.

"While current conditions persist, the country will not have undue difficulty in covering its budget deficit and refinancing the large amounts of maturities coming due in 1997," he said.

Mr Miguel Kiguel, under-secretary of finance, said the average maturity of debt issued in 1996 had been eight years, double that of the previous year, and the trend of lengthening out maturities would continue.

Vote of confidence for Crédit Local de France

INTERNATIONAL BONDS

By Conner Middelmann

A FFr3bn issue by Crédit Local de France, the French bank specialising in public sector borrowing, was a highlight in dealings on the euromarkets yesterday.

The eight-year deal was boosted when a non-French investor switched FFr1bn out of a large position in French government bonds. Société Générale, the lead manager, said the investor was attracted by "paper with a good rating and a yield in the high teens".

In addition, the syndicate official reported strong sales to French retail and institutional investors, as well as other European institutions, adding that Société Générale had sold 70 per cent of its allotment. The yield spread over French government paper widened slightly from its launch spread of 17 basis points to 19 points.

Moody's Investors Service reduced Crédit Local's triple-A rating by one notch earlier this year. However, a dealer at another house, who also reported good sales of the bonds, said investors' fears have abated and Crédit Local was "seen as an improving credit".

Germany's Landesbank Rheinland-Pfalz issued $200m of four-year bonds aimed at European retail investors. "Investment flows have slowed lately, but we expect them to continue and to revive in the new year," said an official at ABN Amro Hoare Govett, joint bookrunner with DKB International.

The bonds were priced to yield 10 basis points over Treasuries, the same as the borrower's last four-year offering in late October – which now trades at 10 basis points though Treasuries. The spread had widened slightly to 11 basis points by the end of the session.

The dollar sector saw a novel structure: $100m of step-up, perpetual, non-cumulative, floating-rate preference shares for BPI Capital Finance, an offshoot of Banco Portugues de Investimento. According to lead manager Union Bank of Switzerland, this is the first preference share issue in the eurobond market involving a call and step-up option: the coupon steps up to 265 basis points over Libor from 115 points if the bonds are not called after five years.

BPI issued straight preference shares last week which are callable after seven years, but do not include a step-up option. A syndicate official at UBS said the deal saw good demand from institutional investors "who are still hungry for high-yielding assets".

Green Tree Receivables Master Trust cams to the dollar sector with a $478.8m global asset-backed transaction, its first with a European listing. Soms .70 per cent of the deal was placed in the US, lead manager Merrill Lynch said.

The bonds are backed by floorplan receivables from dealers selling Green Tree's prodncts, which include manufactured housing – such as mobile homes – recreational vehicles and marine products.

The bonds pay a coupon of 8 basis points over Libor, exactly half the margin Green Tree paid on a similarly structured deal a year ago.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
GTR MT, 96-2, Class A(a)‡	478.8	(a1)	100.00R	Dec 1999	-	-	Merrill Lynch
LB Rheinland-Pfalz(l)	200	3.125	99.82R	Jan 2001	0.225R	+10(l)	ABN Amro/DKB Intl
Camuzzi(l)	130	9.25#	99.80R	Dec 2001	0.825R	+328(5⅞%-01)	Merrill Lynch
Bco do Nordeste do Brazil(b)	100	10.00#	99.47R	Dec 2004	0.875R	+383(5⅞%-01)	CS First Boston
Miura Co(c)ф	100	3.875	100.00	Dec 2000	2.25	-	Nomura International
LB Schleswig-Holstein(d)	100	6.00	99.95R	Jun 2000	0.225R	+10(5⅝%Nov99)	Paribas Capital Markets
BPI Capital Finance(e)‡	100	(e1)	100.00	Undated	1.00	-	UBS
Commerzbank O'seas Fin(l)	75	(f)	100.371R	Jan 2001	0.225R	+6(l)	Commerz/Kredietbank
YEN							
Seino Transportation(g,a)§	20bn	(¼-⅜)	100.00	Mar 2004	2.50	-	Daiwa Europe
SmithKline Beecham Capital	10bn	1.96	100.30	Dec 2002	0.30	-	Nikko Europe
FRENCH FRANCS							
Crédit Local de France	3bn	5.375	99.35R	Jan 2004	0.30R	+17(l)	Société Générale
DANISH KRONER							
ING Bank	400	(h)	102.00	Jan 2007	2.00	-	Bank Brussels Lambert

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. фWith equity warrants. ‡Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Green Tree Receivables Master Trust. Legal maturity: Dec 01, average life: 2.99 yrs. a1) 1-mth Libor +8bp. a2) Class B: $21.5m, 1-mth Libor +30bp, par, Jan 00, av life 3 yrs. b) Callable & puttable on 20/12/01 at 98.39%. c) Fixing: 17/12/96. d) Fungible with $200m. Plus 31 days accrued. e) Callable from Dec 01 at par. e1) 3-mth Libor +115bp to Dec 01, then +265bp. f) 5% to 23/1/99, then 7½%. g) Fixing: 17/12/96. h) 6% to 29/1/02, then 8% to 29/1/05, then 9¼%. l) Over interpolated yield. ‖ Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		8.750	11/06	95.8610	+0.138	7.34	7.11	7.41
Austria		5.875	07/06	99.6500	-0.470	5.92	5.75	6.07
Belgium		7.000	05/06	107.1800	-0.700	5.98	5.76	6.12
Canada *		7.000	12/06	103.5500	-1.450	6.51	6.06	6.45
Denmark		8.000	03/06	108.5400	-0.400	6.73	6.55	6.87
France	BTAN	5.500	10/01	103.1250	-0.380	4.78	4.65	4.96
	OAT	6.500	10/06	104.9800	-0.690	5.83	5.64	5.97
Germany Bund		6.250	04/06	102.8100	-0.790	5.87	5.66	6.00
Ireland		8.000	08/06	108.1000	-0.670	6.82	6.54	6.94
Italy		9.500	02/06	112.7900	-0.670	7.54†	7.42	8.13
Japan	No 140	6.600	06/01	121.8482	-0.130	1.45	1.38	1.49
	No 182	3.000	09/05	103.8273	-0.340	2.47	2.35	2.52
Netherlands		8.500	06/06	118.8100	-0.720	5.85	5.65	5.93
Portugal		9.500	02/06	116.3000	-0.520	7.03	6.89	7.57
Spain		8.800	04/06	111.4200	-0.800	7.07	6.95	7.78
Sweden		8.000	02/05	94.8407	-0.300	8.84	8.70	7.31
UK Gilts		8.000	12/00	103-00	-7/32	7.12	7.04	7.11
		7.500	12/06	99-19	-16/32	7.56	7.42	7.62
		8.000	10/08	110-17	-19/32	7.63	7.50	7.73
US Treasury *		6.500	10/06	101-10	-26/32	6.32	6.08	6.38
		6.500	11/26	99-03	-38/32	6.57	6.37	6.68
ECU (French Govt)		7.000	04/06	105.5400	-0.490	6.19	6.01	6.37

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	5.78
Broker loan rate	7	Two month	-	Three year	5.90
Fed.funds	5⅞	Three month	4.94	Five year	6.07
Fed.funds at intervention	-	Six month	5.21	10-year	6.30
		One year	5.47	30-year	6.56

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	128.48	128.26	-0.42	128.58	127.96	187,574	107,462
Mar	128.58	128.38	-0.42	128.64	128.06	66,906	99,252
Jun	127.38	127.16	-0.42	127.38	126.98	854	8,692

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
126	-	-	-	0.02	0.27	0.46
127	1.48	-	-	0.12	0.48	0.71
128	0.73	1.18	-	0.37	0.82	1.07
129	0.24	0.66	0.94	0.88	-	1.54
130	0.03	0.34	0.56	-	-	-

Est. vol. total, Calls 14,696 Puts 19,162. Previous day's open int., Calls 134,412 Puts 142,669.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	100.60	99.96	-0.84	100.69	99.78	228338	224553
Jun	99.30	99.07	-0.84	99.30	99.30	101	86

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
9950	0.76	1.10	1.35	1.30	0.30	0.64	0.89	1.73
10000	0.44	0.81	1.04	1.08	0.48	0.85	1.08	2.01
10050	0.23	0.57	0.80	0.90	0.77	1.11	1.34	2.33

Est. vol. total, Calls 24272 Puts 22999. Previous day's open int., Calls 189093 Puts 146744

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	128.05	127.80	-0.68	128.14	127.36	50529	82036
Jun	-	127.35	-0.70	-	-	0	505

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
12750	2.06	2.69	1.78	2.84
12800	1.76	2.46	1.96	3.11
12850	1.54	2.24	2.24	3.39

Est. vol. total, Calls 1017 Puts 4497. Previous day's open int., Calls 97824 Puts 69347

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	111.46	111.37	-0.61	111.65	111.20	96,838	45,497
Mar	111.07	110.91	-0.55	111.16	110.74	19,283	38,994

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110-17	109-31	-0-28	110-17	109-23	4866	9774
Mar	109-28	109-08	-0-28	109-28	109-02	63593	133808

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
109	0-47	1-23	1-42	2-11	0-29	1-05	1-24	2-37
110	0-19	0-56	1-11	1-47	1-01	1-38	1-57	3-09
111	0-06	0-34	0-51	1-24	1-52	2-16	2-33	3-50

Est. vol. total, Calls 1203 Puts 427. Previous day's open int., Calls 37678 Puts 25810

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	95.58	95.36	-0.42	95.66	95.10	1,457	5,173
Mar	95.16	94.96	-0.40	95.24	94.88	805	2,808

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	114-19	113-14	-1-08	114-21	113-14	17,177	84,254
Mar	114-11	113-01	-1-11	114-13	113-01	227,828	384,368
Jun	113-10	113-04	-0-24	113-15	112-18	498	14,817

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	125.25	-	-	125.25	124.91	3324	n/a
Jun	123.76	-	-	123.78	123.55	1138	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Wed Dec 11	Day's change %	Tue Dec 10	Accrued interest	xd adj. ytd		Low coupon yield Dec 11	Dec 10	Yr. ago	Medium coupon yield Dec 11	Dec 10	Yr. ago	High coupon yield Dec 11	Dec 10	Yr. ago
1 Up to 5 years (21)	120.76	-0.18	120.98	2.20	9.44	5 yrs	7.27	7.16	6.90	7.30	7.22	6.95	7.36	7.26	6.99
2 5-15 years (16)	148.24	-0.61	149.16	1.61	11.68	15 yrs	7.75	7.65	7.61	7.72	7.62	7.65	7.70	7.59	7.72
3 Over 15 years (7)	168.12	-1.01	169.85	3.23	11.85	20 yrs	7.81	7.73	7.68	7.75	7.64	7.72	7.72	7.60	7.76
4 Irredeemables (6)	191.79	-0.88	193.10	1.67	13.47	Irred.†	7.86	7.80	7.79						
5 All stocks (53)	143.39	-0.53	144.18	2.30	10.87										

Index-linked	Wed Dec 11	Day's change %	Tue Dec 10	Accrued interest	xd adj. ytd		Inflation 5% Dec 11	Dec 10	Yr. ago	Inflation 10% Dec 11	Dec 10	Yr. ago
6 Up to 5 years (2)	202.87	-0.06	202.99	1.15	5.28	Up to 5 yrs	3.25	3.23	2.76	2.61	2.59	1.65
7 Over 5 years (10)	194.74	-0.36	195.48	1.52	4.71	Over 5 yrs	3.58	3.54	3.51	3.39	3.35	3.33
8 All stocks (12)	194.55	-0.34	195.22	1.48	4.69							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Dec 11	Dec 10	Dec 9	Dec 6	Dec 5	Yr ago	High*	Low*
Govt. Secs. (UK)	94.08	94.50	94.15	93.90	95.11	95.87	96.34	91.59
Fixed Interest	114.82	115.54	117.05	117.01	117.61	114.82	117.82	110.74

Gilt Edged Activity Indices

	Dec 10	Dec 9	Dec 6	Dec 5	Dec 4
Gilt Edged bargains	83.0	92.0	93.7	97.8	83.0
5-day average	92.0	93.6	91.1	92.7	91.3

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FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on December 11

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	100½	100¾	-½	6.39
ABN Amro Bank 7¼ 98	1000	102⅝	102¾	-½	6.85
African Dev Bk 7⅜ 23	500	101⅝	102⅛	-⅛	7.23
[illegible]					
Spain 7¼ 03	4000	109	109½	-⅜	5.50
Volkswagen Intl Fin 7 03	1000	105½	105¾	-½	5.76
World Bank 5⅞ 03	3000	102½	102⅝	-⅛	5.43
World Bank 6⅛ 02	3000	104⅛	104⅞	-⅛	5.15
[illegible]					
Abbey Natl Treasury 8 98 £	1000	101	101⅛	-⅛	7.78
British Land 8⅞ 23 £	150	95⅜	95¾	-⅛	9.45
Denmark 6¾ 98 £	800	99¾	99⅞	-⅛	6.88
Depfa Finance 7⅛ 98 £	500	95⅛	95⅝	-⅛	7.82
[illegible]					

SWISS FRANC STRAIGHTS; YEN STRAIGHTS; OTHER STRAIGHTS; DEUTSCHE MARK STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS: [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)							
Treas 13¼pc 1997‡‡		13.15	6.01	100¾	-⅛	107⅜	100½
Exch 10½pc 1997		10.42	6.18	100¾	-⅛	107⅜	100⅛
Treas Cnv 7pc 1997‡‡		6.97	6.33	100⅛	-⅛	101⅛	99⅛
Treas 8¾pc 1997‡‡		8.61	6.38	101⅝	+⅛	107⅝	101⅝
Exch 15pc 1997		14.00	6.46	107⅛	-⅛	115⅛	107⅞
[illegible]							
Treas 7¼pc 2006‡‡		7.55	7.59	96⅛	-⅞	101⅝	94⅜
Treas 7¾pc 2006‡‡		7.66	7.61	100⅞	-⅞	104¼	96⅛
Treas 8pc 2002-6‡‡		7.87	7.51	101⅝	-⅞	104⅛	97⅜
Treas 11¾pc 2003-7		9.74	7.47	120⅞	-⅞	125⅞	118⅞
Treas 8½pc 2007‡‡		8.00	7.63	106⅛	-⅞	108⅞	101⅛
[illegible]							

Index-Linked (b)	Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
4⅝pc '98‡‡	(135.6)	0.50	2.37	119½	-	114½	111⅛
2½pc '01	(78.3)	2.75	3.20	184⅛	-⅛	185⅜	176⅛
2½pc '03	(78.8)	2.95	3.37	180⅜	-¼	182⅛	171⅜
4⅜pc '04‡‡	(135.6)	3.02	3.38	117⅜	-⅛	119	112⅜
2pc '06	(69.5)	3.17	3.45	190⅛	-⅞	192⅛	179⅛
[illegible]							

Other Fixed Interest: [illegible]

Fives to Fifteen Years; Over Fifteen Years; Undated: [illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. Figures in parentheses show RPI base for indexing; Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

Dollar falls amid asset market nervousness

MARKETS REPORT

By Graham Bowley

The dollar weakened on the foreign exchanges yesterday amid profit-taking and renewed nervousness in world asset markets about the direction of US interest rates.

The US currency fell against both the D-Mark and yen as speculation resurfaced that US interest rates might be raised soon, prompting further big declines in US bond and equity prices.

Uncertainty about whether details of the proposed stability pact for the European single currency would be agreed at this weekend's European Union Dublin summit provided extra support for the D-Mark.

The German currency gained against most other European currencies, with the Italian lira moving back above its central rate in the exchange rate mechanism.

The pound lost ground against the D-Mark as no immediate announcement was made about interest rates following the regular monthly monetary meeting between the Treasury and the Bank of England.

The Australian dollar fell sharply after the Australian central bank surprised markets by cutting interest rates by 50 basis points to 6 per cent.

The New Zealand dollar weakened as investors and traders antcipated that the country's new coallition government might begin cutting interest rates more aggressively.

The pound closed down more than 1 pfennig against the D-Mark in London at DM2.5518. It ended slightly higher against the dollar at $1.6557.

The dollar finished in London more than a pfennig down against the D-Mark at DM1.5412. It finished at Y112.85 against the yen.

■ Calm was restored to world currency and asset markets earlier this week following last week's downward lurches.

But this was shattered again yesterday as investors once more began to speculate that the US authorities might be planning a pre-emptive rise in US interest rates.

Last week's sharp falls were triggered when Mr Alan Greenspan, chairman of the US Federal Reserve, led traders to fear that the Fed might raise rates to reduce what Mr Greenspan called "irrational exuberance" in financial markets.

"Mr Greenspan's comments continue to reverberate around the market," said Mr Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell in London.

This was in spite of economic figures yesterday which showed a lower-than-expected increase in core US producer prices last month.

Ms Ros Lifton, international economist at HSBC Markets in London, said attention today would focus on US consumer price data and, more importantly, US retail sales figures.

"There is a lot of interest in the real activity indicators given the market's belief that the US economy is slowing," she said.

A rise in US interest rates to head off inflationary pressures in the US would reverse some of the capital flows currently being used to finance large current account deficits in some countries, said Mr Meggyesi.

"Those currencies which are suffering are those that need to attract overseas capital. Anything that looks like disrupting that flow of capital is liable to put downward pressure on these currencies," he said.

■ The debate over the future shape of the proposed European monetary union continued to rumble on yesterday ahead of this weekend's meeting of European Union heads of state in Dublin.

There is growing uncertainty about whether countries will agree details of the proposed stability pact at the meeting.

■ Analysts did not rule out the possibility that Mr Kenneth Clarke, the UK chancellor, decided to raise interest rates following his meeting yesterday with Mr Eddie George, governor of the Bank of England.

But the Bank signalled no immediate change of rates yesterday. Most analysts said the market would now have to wait until next year for the next rise in rates. Rates are currently at 6 per cent.

■ Pound in New York

Dec 11	—Latest—	— Prev. close —
2 spot	1.6580	1.6535
1 mth	1.6572	1.6528
3 mth	1.6546	1.6502
1 yr	1.6413	1.6366

■ OTHER CURRENCIES

Dec 11	£	$
Czech Rp	45.0545 - 45.1146	27.2200 - 27.2400
Hungary	264.170 - 264.412	159.600 - 159.650
Iran	4966.80 - 4965.80	3000.00 - 3000.00
Kuwait	0.4961 - 0.4972	0.2997 - 0.3002
Poland	4.7140 - 4.7218	2.8480 - 2.8518
Russia	9166.15 - 9177.00	5539.00 - 5541.00
U.A.E.	6.0787 - 6.0829	3.6725 - 3.6728

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POUND SPOT FORWARD AGAINST THE POUND

Dec 11		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.9569	-0.1023	462 - 676	18.0573	17.9347	17.9134	2.9	17.8569	2.2	-	-	104.5
Belgium	(BFr)	52.6223	-0.2962	692 - 754	52.9950	52.5610	52.4073	2.9	52.2323	3.0	51.0373	3.0	105.3
Denmark	(DKr)	9.7736	-0.0499	690 - 782	9.8324	9.7640	9.7537	2.4	9.7131	2.5	9.5342	2.4	107.0
Finland	(FM)	7.8403	-0.0379	338 - 467	7.6910	7.6300	-	-	-	-	-	-	84.5
France	(FFr)	8.6390	-0.0424	355 - 424	8.6870	8.6283	8.6182	2.9	8.5766	2.9	8.3719	3.1	107.6
[illegible]													
New Zealand	(NZ$)	2.3787	+0.0174	763 - 806	2.3851	2.3645	2.3854	-3.4	2.3948	-2.7	2.4158	-1.8	110.1
Philippines	(Peso)	43.5284	+0.1052	324 - 243	43.6243	43.4394	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.2087	+0.015	075 - 119	6.2292	6.1945	-	-	-	-	-	-	-
Singapore	(S$)	2.3165	+0.0041	150 - 180	2.3228	2.3119	-	-	-	-	-	-	-
South Africa	(R)	7.7348	-0.0086	281 - 411	7.7570	7.7311	-	-	-	-	-	-	-
South Korea	(Won)	1389.88	+8.23	921 - 055	1393.83	1381.76	-	-	-	-	-	-	-
Taiwan	(T$)	45.5318	+0.11	849 - 786	45.6443	45.4107	-	-	-	-	-	-	-
Thailand	(Bt)	42.3085	+0.0725	854 - 275	42.4390	42.2150	-	-	-	-	-	-	-

† Rates for Dec 10. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 11		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.8455	-0.0882	423 - 487	10.9240	10.8200	10.8308	1.8	10.7855	2.2	10.5805	2.4	104.2
Belgium	(BFr)	31.7625	-0.2575	600 - 650	32.0210	31.7050	31.7225	2.3	31.595	2.4	31.055	2.3	104.9
Denmark	(DKr)	5.9030	-0.0445	020 - 040	5.9432	5.8910	5.8941	1.8	5.8757	1.8	5.794	1.8	106.2
Finland	(FM)	4.6145	-0.0342	120 - 170	4.6458	4.6040	4.6057	2.3	4.5869	2.4	4.5045	2.4	83.8
France	(FFr)	5.2177	-0.0383	172 - 182	5.2485	5.2038	5.2093	1.9	5.1913	2.6	5.1157	2.0	107.3
[illegible]													
New Zealand	(NZ$)	1.4887	+0.0071	[illegible]									
Philippines	(Peso)	26.2800		- 400 - [illegible]									
Saudi Arabia	(SR)	3.7505		- 503 - [illegible]									
Singapore	(S$)	1.3991	-0.0009	986 - [illegible]									
South Africa	(R)	4.6715	-0.0185	690 - [illegible]									
South Korea	(Won)	839.450	+2.95	300 - [illegible]									
Taiwan	(T$)	27.5000		- 800 - [illegible]									
Thailand	(Bt)	25.5520	-0.018	470 - [illegible]									

† SDR rate per $ for Dec 10. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 10: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

December 11	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.20	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	6	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.00	7.50	7.83
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	5	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	½	[illegible]	½	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	4.72	5.05	5.13	5.30	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 11	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.51	96.51	-0.01	96.52	96.49	10,314	35,248
Mar	96.55	96.54	-0.02	96.55	96.51	15,449	63,048
Jun	96.50	96.50	-0.02	96.51	96.47	8,309	37,980

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.74	96.75	-0.01	96.76	96.74	11440	188840
Mar	96.82	96.83	-0.01	96.85	96.82	19211	207199
Jun	96.77	96.78	-0.01	96.79	96.76	31103	175149
Sep	96.66	96.64	-0.04	96.67	96.62	20225	139875

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.68	96.69	-0.01	96.69	96.68	273	3973
Jan	96.89	96.89	-	96.89	96.89	473	7258
Feb	-	96.89	-	-	-	0	4100
Mar	-	96.86	-	-	-	0	1210

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.75	92.75	-0.02	92.79	92.70	13877	59883
Mar	93.47	93.50	-0.02	93.54	93.45	20793	84680
Jun	93.84	93.85	-0.04	93.88	93.82	6001	50250
Sep	94.02	93.99	-0.04	94.01	93.98	3754	28145

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.78	97.86	+0.08	97.87	97.75	3356	24489
Mar	97.86	97.99	+0.13	98.00	97.82	8362	35162
Jun	97.79	97.95	+0.16	97.95	97.77	4436	16169
Sep	97.83	97.81	+0.17	97.83	97.63	1132	8633

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.48	99.48	-	99.48	99.48	209	n/a
Mar	99.44	99.44	-	99.44	99.44	100	n/a
Jun	99.30	99.31	-0.01	99.31	99.30	391	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.80	95.80	-0.01	95.80	95.79	649	7913
Mar	95.87	95.88	-0.01	95.88	95.85	863	8340
Jun	95.89	95.88	-0.03	95.89	95.85	297	4153
Sep	95.84	95.83	-0.04	95.84	95.78	137	3192

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9275	0.08	0.92	1.20	0.08	0.07	0.10
9300	0.01	0.60	0.98	0.26	0.10	0.13
9325	0	0.41	0.78	0.50	0.16	0.16

Est. vol. total, Calls 8696 Puts 4717. Previous day's open int., Calls 121228 Puts 102914

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 11		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.57	16.42	4.850	1.895	4799	5.441	20.28	489.5	408.0	21.36	4.132	1.900	4.287	3.145	355.0	2.516
Denmark	(DKr)	53.84	10	8.839	2.611	1.020	2583	2.929	10.91	263.6	219.7	11.50	2.224	1.023	2.308	1.693	191.1	1.356
France	(FFr)	60.91	11.31	10	2.954	1.154	2923	3.314	12.34	298.2	248.5	13.01	2.516	1.158	2.611	1.916	216.2	1.534
Germany	(DM)	20.62	3.830	3.385	1	0.391	989.4	1.122	4.177	100.9	84.13	4.404	0.852	0.392	0.884	0.649	73.20	0.519
Ireland	(I£)	52.78	9.803	8.665	2.560	1	2533	2.872	10.69	258.4	215.3	11.27	2.181	1.003	2.263	1.660	187.4	1.329
Italy	(L)	2.084	0.387	0.342	0.101	0.039	100.	0.113	0.422	10.20	8.503	0.445	0.086	0.040	0.089	0.066	7.398	0.052
Netherlands	(Fl)	18.38	3.414	3.017	0.891	0.348	881.9	1	3.723	89.96	74.99	3.926	0.759	0.349	0.788	0.578	65.25	0.463
Norway	(NKr)	49.36	9.169	8.104	2.394	0.935	2369	2.686	10	241.7	201.4	10.54	2.039	0.938	2.116	1.553	175.2	1.249
Portugal	(Es)	20.43	3.794	3.354	0.991	0.387	980.2	1.111	4.138	100.	83.35	4.363	0.844	0.388	0.876	0.642	72.52	0.514
Spain	(Pta)	24.51	4.552	4.024	1.189	0.464	1176	1.333	4.965	120.0	100.	5.235	1.013	0.466	1.051	0.771	87.01	0.617
Sweden	(SKr)	46.81	8.696	7.686	2.270	0.887	2246	2.547	9.484	229.2	191.0	10	1.934	0.890	2.007	1.472	166.2	1.179
Switzerland	(SFr)	24.20	4.496	3.974	1.174	0.459	1161	1.317	4.903	118.5	98.78	5.170	1	0.460	1.038	0.761	85.92	0.609
UK	(£)	52.62	9.774	8.639	2.552	0.997	2525	2.863	10.66	257.6	214.7	11.24	2.174	1	2.256	1.655	186.8	1.325
Canada	(C$)	23.32	4.332	3.829	1.131	0.442	1119	1.269	4.725	114.2	95.17	4.982	0.964	0.443	1	0.734	82.80	0.587
US	($)	31.79	5.906	5.220	1.542	0.602	1526	1.730	6.441	155.6	129.7	6.792	1.314	0.604	1.363	1	112.9	0.801
Japan	(Y)	28.17	5.232	4.625	1.366	0.534	1352	1.533	5.707	137.9	114.9	6.017	1.164	0.535	1.208	0.886	100.	0.709
Ecu		39.71	7.377	6.520	1.926	0.752	1906	2.161	8.045	194.4	162.0	8.483	1.641	0.755	1.703	1.249	141.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6447	0.6508	+0.0067	0.6508	0.6476	7,672	45,854
Mar	0.6479	0.6543	+0.0066	0.6543	0.6477	15,099	37,378
Jun	-	0.6580	+0.0045	-	-	23	4,194

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8829	0.8876	+0.0053	0.8878	0.8829	18,335	36,175
Mar	0.8941	0.8982	+0.0043	0.8996	0.8938	20,953	39,208
Jun	0.9108	0.9108	+0.0055	0.9108	0.9108	21	1,157

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7550	0.7650	+0.0101	0.7650	0.7586	10,916	36,961
Mar	0.7612	0.7716	+0.0107	0.7716	0.7645	20,560	35,616
Jun	-	0.7722	+0.0050	-	-	68	1,306

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6502	1.6594	+0.0072	1.6594	1.6546	4,769	40,242
Mar	1.6490	1.6564	+0.0076	1.6564	1.6512	8,097	15,007
Jun	-	1.6480	+0.0032	-	1.6410	52	2,205

UK INTEREST RATES

LONDON MONEY RATES

Dec 11	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible] - 3	6 - [illegible]	[illegible] - 6	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible] - 6	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible] - 6	[illegible]	[illegible]	[illegible]
Discount Market deps.	[illegible] - 5	[illegible]	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Dec 6, 6.0773pc. ECGD fixed rate Stg. Export Finance. Make up day Nov 29, 1996. Agreed rate for period Dec 25, 1996 to Jan 25, 1997, Scheme III 7.61pc. Reference rate for period Nov 1, 1996 to Nov 29, 1996, Schemes IV & V 6.373pc. Finance House Base Rate 6½pc from Dec 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.60	93.60	-0.02	93.61	93.58	10058	90135
Mar	93.41	93.42	-0.01	93.45	93.39	19262	92687
Jun	93.16	93.14	-0.02	93.17	93.11	5949	86960
Sep	92.95	92.93	-0.04	92.96	92.90	5642	55928
Dec	92.77	92.75	-0.06	92.78	92.73	2464	40579

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9350	0.13	0.12	0.10	0.03	0.20	0.46
9375	0.01	0.04	0.05	0.16	0.37	0.66
9400	0	0.01	0.02	0.40	0.59	0.88

Est. vol. total, Calls 701 Puts 1252. Previous day's open int., Calls 247387 Puts 171256

EMS EUROPEAN CURRENCY UNIT RATES

Dec 11	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.796709	0.755456	+0.001204	-5.42	7.28	36
Finland	5.85424	5.79347	-0.00409	-1.04	2.54	7
Portugal	197.398	195.450	-0.401	-0.99	2.49	7
Spain	163.826	162.975	-0.055	-0.52	2.00	4
Netherlands	2.19672	2.17196	-0.00199	0.10	1.37	-1
Italy	1906.48	1914.64	+5.89	0.43	1.04	-3
Belgium	39.7191	39.9216	-0.0342	0.51	0.96	-4
Germany	1.92573	1.93616	-0.00175	0.54	0.93	-5
Austria	13.5485	13.6248	-0.0112	0.56	0.91	-4
Denmark	7.34555	7.41657	-0.00062	0.97	0.50	-7
France	6.45863	6.55399	+0.00098	1.47	0.00	-12
NON ERM MEMBERS						
Greece	295.269	305.823	+0.42	3.57	-2.03	-
UK	0.793103	0.757674	+0.001289	-4.44	6.18	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
1.630	2.22	-	3.50	0.03	0.86	1.55
1.640	1.39	2.35	2.91	0.20	1.22	1.96
1.650	0.72	1.79	2.43	0.53	1.66	2.43

Previous day's vol., Calls 311 Puts 31. Prev. day's open int., Calls 34,035 Puts 67,229

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
0.635	0.90	1.24	-	0.03	0.24	0.43
0.640	0.48	0.90	1.24	0.11	0.41	0.61
0.645	0.19	0.62	0.96	0.29	0.62	0.83

Previous day's vol., Calls 309 Puts 2,415. Prev. day's open int., Calls 39,535 Puts 33,453

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.49	94.46	-0.02	94.47	94.49	19,527	383,380
Mar	94.47	94.43	-0.05	94.46	94.43	36,317	404,344
Jun	94.36	94.30	-0.07	94.34	94.29	36,158	299,895

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.02	95.00	-0.02	95.02	95.00	385	4,785
Jun	94.87	94.87	-	94.87	94.87	132	2,137
Sep	-	94.84	-	-	-	4	16

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	Jan	Feb	Mar	PUTS Dec	Jan	Feb	Mar
9675	0.01	0.11	0.13	0.16	0.01	0.03	0.05	0.08
9700	0	0.01	0.03	0.04	0.25	0.16	0.20	0.21
9725	0	0	0	0.01	0.50	0.42	0.42	0.43

Est. vol. total, Calls 4332 Puts 10455. Previous day's open int., Calls 528096 Puts 359890

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9800	0.03	0.26	0.36	0.17	0.27	0.41
9825	0.01	0.14	0.23	0.40	0.46	0.53

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 9311 Puts 4845

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	•Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
•Henry Ansbacher	6.00	Financial & Gen Bank	7.00	•Singer & Friedlander	6.00
Bank of Baroda	6.00	•Robert Fleming & Co	6.00	•Smith & Williamson Secs	6.00
Banco Bilbao Vizcaya	6.00	Girobank	6.00	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	•Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	•Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of Scotland	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	•Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
•Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00	• Members of London Investment Banking Association	
Clydesdale Bank	6.00	•Leopold Joseph & Sons	6.00	* In administration	
The Co-operative Bank	6.00	Lloyds Bank	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
		*Mount Credit Corp	6.25		

COMMODITIES AND AGRICULTURE

Dutch solve puzzle of the 'missing' copper

By Kenneth Gooding, Mining Correspondent

The Netherlands' Statistical Office yesterday admitted that its data on the flow of copper to and from Rotterdam was flawed.

Mr Jan Daameo, the official responsible for re-examining the statistics, said he was satisfied this solved the puzzle about "missing" stocks of the metal that had become one of the big talking points in the metals industry.

The uproar began on November 13 when the UK based World Bureau of Metal Statistics, on which many analysts rely for their raw material, suggested there might be substantial stocks of copper in Rotterdam not reported in any official statistics.

This idea found little support among traders and analysts but the bureau's remarks, coming in the wake of the Sumitomo copper trading scandal, caused a brief flurry in copper prices.

There was some speculation that the stocks might have been built up by Mr Yasuo Hamanaka, the copper trader who Sumitomo says cost it $2.6bn by unauthorised trading.

The bureau last month said its studies of copper flows to and from the Netherlands for 1990-95 showed unreported stocks of more than 500,000 tonnes.

Mr Lloyd Davis, the general manager, said then it was unlikely the stockpile was that big but "we believe that this analysis points to potentially significant stocks of refined copper in the Netherlands not previously reported by the Bureau".

Mr Davis said yesterday that he was standing by that assertion and that at one time there probably was more than 100,000 tonnes of unreported stock in Rotterdam. "It is good of the Dutch to admit their errors but we still do not have the accurate statistics." He said he would wait for the CBS to produce those figures before making any formal comment.

Mr Daamen said the process of producing accurate statistics would probably take another two weeks.

He said that in the past three weeks the investigation into the data showed there had been a failure to distinguish between copper imported into the Netherlands for domestic use and copper passing through the country in transit.

In the time between 1990 and 1993 – before the borders between European Union countries were opened up – flows of copper through Rotterdam were not fully included in official statistics. After 1993, some copper registered as being for use in the Netherlands had, in fact, found its way into the wider European Union market.

COMMODITIES NEWS DIGEST

Challenge to NZ apple board fails

A determined bid by a New Zealand apple grower to break the country's marketing board monopoly on exporting fruit has failed. The New Zealand Apple and Pear Marketing Board has refused to allow the export of the 1.6m apple crop from Applefields, a South Island grower.

The board's consent committee – which last year allowed Applefields to export thousands of cartons of apples on its own account – said the application was not in the interests of the country's other 1,600 growers and would have driven down returns for the entire industry.

Applefields – which has been involved in a long-running campaign against the board's "single desk selling" monopoly – had threatened to chop down all its trees if its application was rejected, putting 2,000 seasonal workers out of a job. Mr Tom Kain, Applefields managing director, said the company was now considering its future and that the board's decision was a "tragedy" for the industry.

Mr John McCliskie, chairman of the Apple and Pear Board, said he would be sorry if Applefields carried out its threat to rip out its trees and sell the former orchards on the outskirts of Christchurch City as small farms. He said that if the company decided to export through the board, no jobs would be lost. Current forecasts were for higher returns in the coming season. *Terry Hall, Wellington*

Mining investment to rise

Investment by the Australian mining industry is expected to rise strongly in 1996-97, to around A$5.64bn (US$4.52bn). But exploration expenditure within Australia is forecast to be flat, and the number of people employed directly in the industry is likely to decline, as more mining companies turn to contractors.

The annual survey by the Minerals Council of Australia, the industry body, found that net capital expenditure in 1995-96 rose by 12 per cent to just over A$5bn following a 10 per cent rise in the previous year.

In the immediate future, it expects a further substantial increase, with expenditure on mining assets reaching A$4.47bn in 1996-97 and spending on smelting and refining assets topping A$1.17bn. Some of the projects scheduled for completion by end-1997 include the Cannington, Ernest Henry and Silver Swan mines, and the Mt Lyell redevelopment in Tasmania.

But the MCA also cautioned that, while there are a "substantial number" of large projects under consideration, "there is still considerable uncertainty concerning if and when these projects will be committed". *Nikki Tait, Sydney*

NSW coal mine sold

Kembla Coal & Coke, the Australian coalmining offshoot of the large RTZ-CRA resources group, has agreed to sell its Tahmoor mine in New South Wales, to Austral Coal, for an undisclosed sum. The Anglo-Australian mining group said last June it was putting KCC's two NSW mines up for auction, following several years of disappointing performance. The sale of the other mine, West Cliff, is under negotiation. *Nikki Tait*

Iraq factor lifts wheat prices

MARKETS REPORT

By Laurie Morse in Chicago and Maggie Urry in London

Anticipation that Iraq would return to world wheat markets as part of the UN aid-for-oil programme helped support wheat futures prices on the Chicago Board of Trade yesterday.

Iraq's trade minister has said that Iraq hopes to import 1.2m metric tonnes of wheat during the first segment of the programme, which allows the country to buy $1.3bn in food and medicine every six months, using proceeds from oil sales.

However, a grain trading expert said timing of the purchases, and the origin of the wheat was "purely guesswork" at the moment. Mr Robert Kohlmeyer, executive vice-president of Washington-based consultants World Perspectives, said it was highly unlikely Iraq would buy US wheat.

"The Australian Wheat Board has a long relationship with Iraq, and they have the wheat to sell," said Mr Kohlmeyer. Argentine wheat was also attractively priced, on international markets, he said.

The US Department of Agriculture has projected that Iraq will import 1m tonnes of wheat in the 1996-97 marketing year from all origins. Traders expect that estimate to rise in today's report from the agency.

Wheat futures also gained support from hedge funds taking profits after setting short positions – betting on a fall in prices – late last week.

Domestic millers also bid up cash prices for hard red winter wheat. At midday, wheat futures for March delivery were up 6¼ cents a bushel at $3.85½.

The International Sugar Organisation has warned of "considerable downward pressure on prices" in the first quarter of 1997 after revising its view of world sugar production and consumption in 1996-97.

It is forecasting a 2.87m tonne surplus in the year to September 1997, which, in addition to stocks of 34m tonnes at the end of the 1995-96 year, would increase stocks to over a third of annual consumption.

Sugar prices for March delivery on the London International Financial Futures Exchange yesterday closed at $297.50 a tonne, an increase of 30 cents.

Competition weakens gasoline

By Deborah Hargreaves

Gasoline and heating oil prices skidded yesterday amid declines across the oil market. The gasoline market looks vulnerable to a long-term price fall, especially in Europe where there is widespread over-capacity.

The gasoline market has also been weakened by intense competition among US refiners and a long-term switch from gasoline to diesel in Europe.

Gasoline prices have slipped from 70 cents a gallon to 64 cents this week while heating oil is down 10 per cent on the New York Mercantile Exchange. The margin that US oil producers make on refining a barrel of crude has collapsed from a profit of $1 a barrel two weeks ago to a loss of 60 cents a barrel.

"It is a curious situation. US refiners are competing intensely for every last sale, but stocks are still quite low," said Mr Ken Miller at *Purvin & Gertz in Houston*.

US refiners draw some comfort from the buoyant demand for gasoline in the US market, where a drop in wholesale prices is usually passed on to consumers fairly quickly. In Europe, petrol prices are kept high by government duty.

European refiners have seen gasoline refining margins almost halved over the past four years from $4.25 to $2.33 a barrel, forcing them to look at severe restructuring measures.

"Gasoline is the problem product in European refining. Although there is no sign of additions to refining capacity, there has been a creep in capacity," said Mr Paul Skinner of Shell International Petroleum.

This has seen European plants working more efficiently, with faster turn-round times to produce more gasoline from the same equipment.

Shell said on Tuesday it would sell its small Swiss refinery and take measures to raise profitability at two of its weakest European refineries.

Mr Peter Bogin, analyst at Cambridge Energy Research Associates in Paris, said demand for gasoline had fallen as more cars run on diesel. European gasoline demand peaked in 1992 at 3m barrels a day and has hovered around 2.8m to 2.9m b/d mark since then – it only takes a small drop in consumption to push the market out of balance.

European consumers are increasingly turning towards diesel cars and outside the UK there is a significant price inducement to do so. Diesel cars already represent some 50 per cent of the market in France and countries such as Austria.

Demand growth outside small markets such as Portugal and Turkey is expected to be concentrated on diesel in future. "There is little prospect of gasoline demand catching up with capacity," said Mr Skinner.

Oil companies used to offload their surplus to the US market, but fierce competition and an increase in capacity has seen them diverting exports to eastern Europe and Russia. Those regions are building their own refineries and demand for gasoline imports will fall.

Analysts are looking for oil companies to rationalise production in Europe, particularly in the French market where companies have been discussing a restructuring plan with the government.

Production of distillates is more expensive than gasoline refining and oil companies have been more reluctant to install new plant.

Ashley Ashwood

Gasoline is the problem product in European refining

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1485.5-86.5	1516-17
Previous	1476-7	1507-8
High/low	1484/1483	1528/1507
AM Official	1484-84.5	1510.5-11
Kerb close		1526-27
Open int.	251,007	
Total daily turnover	73,080	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1330-40	1360-65
Previous	1323-6	1352-5
High/low		1360/1355
AM Official	1325-30	1358-60
Kerb close		1360-65
Open int.	6,271	
Total daily turnover	1,659	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	670-1	678-9
Previous	662-3	669-70
High/low	670	680/678
AM Official	669-70	678-9
Kerb close		678-9
Open int.	39,390	
Total daily turnover	10,683	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6675-85	6765-70
Previous	6705-15	6790-800
High/low		6810/6710
AM Official	6680-85	6780-85
Kerb close		6700-10
Open int.	47,789	
Total daily turnover	12,760	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5745-55	5785-90
Previous	5750-60	5790-95
High/low		5825/5785
AM Official	5780-85	5815-20
Kerb close		5785-95
Open int.	16,409	
Total daily turnover	7,299	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1023.5-24.5	1048.5-49
Previous	1016.5-8.5	1041-3
High/low		1050/1044
AM Official	1024.5-25.5	1050-50.5
Kerb close		1049-50
Open int.	82,570	
Total daily turnover	21,887	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2313-18	2163-65
Previous	2280-85	2134-5
High/low		2168/2143
AM Official	2290-95	2154-55
Kerb close		2162-63
Open int.	168,522	
Total daily turnover	60,025	

■ LME AM Official £/$ rate: 1.6568
LME Closing £/$ rate: 1.6584

Spot: 1.6586 3 mths: 1.6554 6 mths: 1.6512 9 mths: 1.6467

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	103.70	-0.75	105.80	103.70	1,239	6,545
Jan	102.60	+0.45	104.70	102.30	330	6,345
Feb	101.60	+0.00	101.75	101.60	95	1,370
Mar	100.35	+0.80	101.15	99.60	5,949	25,034
Apr	98.60	+0.85	98.75	98.60	53	916
May	96.85	+0.98	97.55	96.20	60	4,748
Total					8,301	61,362

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	368.40-368.80		
Opening	368.75-369.15		
Morning fix	369.60	223.38	487.72
Afternoon fix	369.25	222.18	483.70
Day's High	370.00-370.40		
Day's Low	367.85-368.25		
Previous close	368.40-368.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)
1 month ....3.09 6 months 3.42
2 months ....3.12 12 months 3.50
3 months 3.15

Silver Fix	p/troy oz.	US cts equiv.
Spot	293.80	486.50
3 months	297.80	492.40
6 months	302.30	498.45
1 year	311.55	510.80

Gold Coins	$ price	£ equiv.
Krugerrand	368-370	222-223
Maple Leaf	-	-
New Sovereign	86-89	52-54

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	368.5	+0.1	368.4	368.2	174	871
Feb	370.6	+0.1	372.0	369.5	12,836	92,235
Apr	372.8	+0.2	373.3	371.8	831	21,747
Jun	375.1	+0.2	376.1	374.2	966	16,045
Aug	377.4	+0.2	378.4	378.4	1	5,442
Oct	379.7	+0.2	380.5	379.5	19	2,388
Total					15,035	185,916

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	374.4	+0.7	373.5	369.1	1,458	16,894
Apr	374.5	+0.8	376.0	372.0	737	10,977
Jul	377.2	+0.8	378.0	376.0	32	2,038
Oct	380.0	+0.7	380.5	380.1	50	1,074
Total					2,277	31,283

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	119.75	+1.00	-	-	7	201
Mar	122.20	+1.20	122.75	121.25	937	7,012
Jun	123.50	+1.20	-	-	50	393
Sep	124.50	+1.20	-	-	5	5
Dec	125.50	+1.20	-	-	-	17
Total					994	7,610

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	480.2	-1.0	483.0	475.5	40	276
Jan	481.1	-1.2	-	-	2	23
Mar	486.0	-1.2	492.0	478.0	7,553	56,854
May	489.4	-1.1	494.5	486.5	45	9,376
Jul	494.7	-1.1	500.0	490.0	17	8,347
Sep	499.2	-1.1	499.2	499.0	1	3,020
Total					7,664	84,482

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	23.71	-0.71	24.47	23.53	90,013	73,458
Feb	23.25	-0.70	24.04	23.15	30,158	67,457
Mar	22.75	-0.67	23.37	22.68	12,600	31,425
Apr	22.25	-0.66	22.81	22.20	2,319	20,752
May	21.80	-0.54	22.32	21.73	1,085	15,524
Jun	21.36	-0.51	21.82	21.30	3,083	29,302
Total					165,798	381,186

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	22.55	-0.74	23.07	22.40	18,872	29,026
Mar	22.00	-0.67	22.58	21.95	15,772	43,765
Apr	21.52	-0.64	22.02	21.45	3,030	31,824
May	21.02	-0.59	21.47	20.95	1,989	13,597
Jun	20.47	-0.62	20.96	20.43	1,435	9,124
Jul	20.05	-0.50	20.48	20.05	337	11,674
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	67.95	-1.67	69.75	66.30	25,993	35,145
Feb	67.40	-1.70	69.05	66.00	12,716	26,254
Mar	65.30	-1.40	66.70	64.50	3,227	15,633
Apr	61.85	-1.35	62.75	61.65	1,804	8,620
May	58.95	-1.35	59.80	58.80	543	4,168
Jun	57.00	-1.40	58.00	57.00	375	5,468
Total					45,348	108,828

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	202.75	-10.25	209.50	202.75	3,227	8,433
Jan	205.00	-8.75	210.50	204.75	16,611	28,675
Feb	200.75	-9.25	206.00	200.50	5,070	12,488
Mar	195.00	-8.00	198.75	194.25	3,099	7,945
Apr	189.25	-7.50	191.50	187.75	2,812	5,340
May	183.00	-6.75	186.00	183.50	321	3,082
Total					28,749	78,700

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	3.410	+0.014	3.520	3.300	21,176	34,389
Feb	3.150	+0.020	3.210	3.080	8,156	24,962
Mar	2.800	+0.035	2.830	2.740	1,857	14,729
Apr	2.435	+0.025	2.470	2.395	1,013	8,282
May	2.285	+0.005	2.310	2.270	607	7,118
Jun	2.180	-0.005	2.220	2.170	952	6,901
Total					36,458	147,873

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	64.50	-2.36	67.10	63.70	18,596	27,311
Feb	64.20	-2.38	66.60	63.60	5,783	13,259
Mar	64.05	-2.36	66.10	63.60	647	8,418
Apr	65.80	-2.04	67.40	65.75	565	3,618
May	65.45	-1.79	66.80	65.40	107	2,701
Jun	64.25	-1.74	-	-	79	2,457
Total					24,112	61,790

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	94.85	+1.10	94.85	94.00	43	1,363
Mar	97.00	+1.20	97.00	96.50	25	2,072
May	98.85	+1.40	98.85	97.95	105	2,155
Jul	100.00	+1.25	100.00	100.00	13	322
Sep	93.10	+1.00	-	-	-	2
Nov	95.10	+1.00	95.00	95.00	10	611
Total					196	6,730

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	399.00	+3.50	400.00	392.25	256	1,115
Mar	369.25	+3.50	396.00	366.00	9,738	33,028
May	355.50	+2.75	356.00	354.50	889	5,265
Jul	332.75	+3.00	333.50	330.00	1,780	16,767
Sep	337.00	+3.25	338.00	336.00	10	759
Dec	346.00	+1.00	348.00	346.00	10	463
Total					12,709	57,503

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	267.50	+1.00	267.75	266.00	5,905	15,773
Mar	264.50	+0.75	266.00	263.00	27,355	145,255
May	268.75	+1.50	267.50	265.00	5,394	52,715
Jul	268.00	+1.50	268.50	266.75	10,099	54,373
Sep	261.50	+0.75	262.00	261.50	370	5,725
Dec	260.25	+1.50	260.75	258.25	3,813	34,277
Total					53,311	310,741

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	93.75	+1.50	93.50	93.50	5	472
Mar	95.00	+1.50	94.50	94.50	5	226
May	96.25	+1.50	96.00	96.00	9	130
Sep	92.50	-	-	-	-	1
Nov	94.50	-	94.55	94.50	5	160
Total					24	1,019

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	691.50	+6.50	692.00	686.00	25,783	54,134
Mar	696.25	+7.25	696.50	679.00	11,409	39,759
May	688.50	+7.50	688.50	681.00	2,580	23,417
Jul	688.00	+7.50	686.50	682.00	4,223	22,489
Aug	685.00	+6.50	688.00	682.00	67	2,721
Sep	667.50	+5.50	668.00	666.00	94	403
Total					45,386	153,225

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	23.00	+0.05	23.05	22.84	3,395	2,651
Jan	23.17	-0.02	23.34	23.07	7,800	31,877
Mar	23.58	-	23.71	23.42	5,057	28,764
May	23.84	-	23.98	23.69	1,045	13,761
Jul	24.05	-0.01	24.20	23.93	1,113	8,622
Aug	24.09	-0.05	24.25	24.09	27	1,832
Total					16,449	80,350

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	221.6	+3.6	221.7	228.3	3,357	8,129
Jan	220.1	+3.7	222.3	218.8	11,138	28,377
Mar	218.9	+4.1	216.0	211.8	8,017	23,851
May	211.8	+3.5	212.0	210.0	1,964	14,211
Jul	211.1	+3.8	211.2	209.0	1,331	8,811
Aug	210.0	+4.0	210.0	208.0	87	2,013
Total					28,037	87,273

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.0	-	-	-	-	-
Mar	60.3	-	60.0	59.5	43	1,240
Apr	69.5	-	63.5	62.0	2	37
May	72.5	-	-	-	-	-
Apr	113.5	-	113.5	113.5	5	554
Total					50	1,833

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1490	+15	1495	1485	26	362
Jan	1425	+35	1430	1400	88	1,845
Mar	1475	+19	1480	1475	13	886
Apr	1211	+11	1210	1210	8	380
Jul	1220	+15	1230	1220	11	86
Oct	1330	+15	-	-	-	35
Jan	1340	+15	-	-	-	
Total					154	2,761

	Close	Prev
BFI	1477	1476

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	878	-1	880	876	72	249
Mar	930	-1	938	929	1,389	49,128
May	950	-	956	948	112	16,896
Jul	966	-1	972	963	130	12,619
Sep	983	+1	989	981	475	7,930
Dec	991	-	991	989	270	6,428
Total					2,967	118,831

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1327	-6	1327	1327	5	6
Mar	1389	+5	1390	1378	3,595	38,508
May	1409	+2	1411	1403	606	11,199
Jul	1433	+3	1435	1425	521	7,332
Sep	1452	+3	1449	1445	72	6,685
Dec	1473	+9	-	-	35	1,358
Total					4,812	75,388

■ COCOA (ICCO) (SDR's/tonne)

Dec 10	Price	Prev. day
Daily	1031.43	1028.79

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1331	-	1340	1322	999	14,467
Mar	1262	-2	1275	1252	1,345	20,991
May	1217	-8	1239	1207	883	6,166
Jul	1210	-6	1233	1206	253	1,540
Sep	1205	-7	1230	1200	187	841
Nov	1204	-7	1231	1203	36	519
Total					3,713	44,524

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	119.00	+1.25	119.00	118.00	278	742
Mar	108.10	-0.10	108.50	107.10	6,984	15,624
May	105.50	-0.35	106.90	104.75	1,389	5,980
Jul	104.00	-0.40	105.25	103.50	271	1,625
Sep	102.10	-0.30	103.50	101.80	476	1,210
Dec	99.95	-0.30	101.50	98.55	184	894
Total					9,566	26,387

■ COFFEE (ICO) (US cents/pound)

Dec 10		Prev. day
Comp. daily	88.46	87.92
15 day average	92.80	93.36

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	297.9	+0.7	300.0	296.4	631	16,454
May	297.6	+0.5	298.7	296.4	185	5,154
Aug	299.5	+0.7	299.8	298.9	24	2,612
Oct	297.5	+0.7	297.0	298.9	17	1,783
Dec	298.1	-	-	-	-	545
Mar	300.2	+0.5	-	-	-	377
Total					867	26,986

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.42	+0.07	10.43	10.34	8,773	80,091
May	10.54	+0.03	10.55	10.51	2,034	30,726
Jul	10.55	+0.03	10.56	10.53	1,040	20,943
Oct	10.58	+0.01	10.60	10.57	375	12,686
Mar	10.62	+0.02	10.62	10.59	99	3,759
May	10.61	+0.02	-	-	-	835
Total					12,324	149,553

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	78.17	-0.36	76.45	76.10	4,891	26,120
May	77.13	-0.42	77.40	77.07	1,094	10,407
Jul	78.13	-0.32	78.15	77.85	206	7,621
Oct	77.46	-0.40	77.35	77.10	26	1,247
Dec	76.83	-0.62	77.30	76.71	296	9,023
Mar	77.73	-0.60	-	-	6	384
Total					6,519	55,276

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	90.85	-0.35	91.60	90.30	1,616	10,907
Mar	94.60	-0.25	95.25	94.15	1,535	10,294
May	97.75	+0.10	98.25	97.50	271	3,082
Jul	100.40	+0.40	100.60	100.60	14	651
Sep	103.10	+0.10	103.00	103.00	1	260
Nov	103.10	+0.60	102.50	102.50	3	58
Total					3,437	25,273

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	65.825	+0.175	66.050	65.325	4,928	11,202
Feb	62.925	+0.175	63.100	62.400	9,591	31,796
Apr	64.425	+0.075	64.450	64.100	2,849	21,107
Jun	62.550	-0.025	62.700	62.350	606	8,812
Aug	62.375	+0.025	62.450	62.150	578	7,787
Oct	64.825	-	65.000	64.700	275	6,027
Total						

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	57.625	-1.175	58.550	57.325	2,716	6,686
Feb	74.950	-0.900	75.950	74.800	6,894	14,494
Apr	70.975	-0.700	71.700	70.950	917	5,258
Jun	74.475	-0.300	74.800	74.100	915	5,040
Jul	71.700	-0.200	71.950	71.400	171	1,394
Aug	67.800	-0.125	68.000	67.450	56	896
Total						

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	77.250	-1.075	79.125	76.900	2,148	4,352
Mar	76.625	-0.925	78.375	76.300	188	959
May	78.200	-0.675	79.000	77.200	57	559
Jul	78.300	-0.675	79.000	77.300	38	459
Aug	73.900	+0.200	74.300	73.600	8	103
Total						

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1400	114	154	-	12
1500	30	83	18	40
1600	2	37	87	92
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
2000	223	200	4	76
2100	137	145	17	120
2200	70	102	50	175
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1300	42	49	11	67
1350	14	33	33	121
1400	5	21	74	159
■ COCOA LIFFE	Mar	May	Mar	May
900	43	66	13	18
925	29	50	24	25
950	20	36	40	36
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
2200	130	90	1	66
2250	83	73	4	-
2300	45	52	a	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$20.90-1.10w	-0.75
Brent Blend (dated)	$22.88-2.90	-1.00
Brent Blend (Jan)	$22.80-2.82	-0.95
W.T.I.	$23.73-3.75w	-0.905
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$216-218	-9
Gas Oil	$206-207	-9.5
Heavy Fuel Oil	$112-114	-3
Naphtha	$221-225	-6
Jet fuel	$235-237	-9.5
Diesel	$220-221	-10
■ NATURAL GAS (Pence/therm)		
Bacton (Jan)	18.20-18.30	-1.75

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER		
Gold (per troy oz)♣	$368.50	
Silver (per troy oz)♣	482.50c	+1.00
Platinum (per troy oz.)	$369.50	+1.75
Palladium (per troy oz.)	$120.00	+2.00
Copper	110.0c	-6.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.72r	
Tin (New York)	299.50	
Cattle (live weight)	108.88p	+1.31*
Sheep (live weight)	134.09p	-2.17*
Pigs (live weight)†	90.77p	-5.09*
Lon. day sugar (raw)	$257.40	+1.10
Lon. day sugar (wte)	$302.00	-0.40
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	127.0	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	80.50p	
Rubber (Feb)♥	80.50p	
Rubber (KL RSS No1)	316.5x	+0.5
Coconut Oil (Phil)§	$790.0y	+5.0
Palm Oil (Malay.)§	520.0	+2.5
Copra (Phil)§	495.0	
Soyabeans (US)	193.0z	
Cotton Outlook'A' Index	79.75	+0.50
Wooltops (64s Super)	389p	-7

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w Jan y Dec/Jan♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 5,946 head of pigs sold. ♦ New month of January.

FUTURES DATA
All futures data supplied by CMS.

Nuts and Seeds Prices from Kenkoo USA a tonne, Iranian pistachios 28/30 raw (in shell) naturally opened (round): RPPC new crop prices at 4,050 CFR. US almonds (shelled) 25/27 SSR: rising at 5,950 FAS California Dec shipment: extreme shortage of nonpareil variety. US walnuts LHP 20%: 8,000 up sharply FAS California; in-shell Hartley very difficult, price idea 2,550 FAS. Turkish hazelnuts standard No 1: unstable, moving up, price idea between 3,800 and 4,000 CFR. Turkish apricots number two: price up at 3,700 CFR; number four: 3,300. Indian cashews raw W-320: 5,850 CFR BMP up slightly; spot goods firming at 5,950 FCA Rotterdam. US pecans fancy junior mammoth halves: crop 1996, cheapest of US shelled nuts at 4,850 FOB; very active. Coconut: CFR at 1,600 for top Philippine goods but only shipments from March, rising.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 11	Dec 10	month ago	year ago
1860.0	1849.8	1845.1	2130.6

■ CRB Futures (Base: 1967 = 100)

Dec 10	Dec 9	month ago	year ago
240.67	240.32	-	-

■ GSCI Spot (Base: 1970 = 100)

Dec 10	Dec 9	month ago	year ago
214.54	216.54	206.20	184.45

CROSSWORD

No.9,249 Set by VIXEN

ACROSS
1 Effect Ulster settlement (6)
4 Woman advocates turning over superb plants collected (8)
9 Some refuse full-bodied wine, though it's beneficial (6)
10 Animal doctor – a good man, devil take him! (8)
12 New pieces, almost all outstanding (8)
13 Charm to wind up the auditor! (6)
15 Can't find shade (4)
18 About to cut a prison stretch (7)
20 The top man who is popular (7)
21 Many are brave (4)
25 Drinks to the queen, which can present a problem (6)
26 Swan song showing some taste (8)
28 Using a lever to obtain lift (8)
29 To stop in really warm accommodation is capital (6)
30 He's offered a small boat with a certain hesitation (8)
31 A leading journalist 7 upset (6)

DOWN
1 A game played as permitted in the road (8)
2 All-inclusive cleaning operation (8)
3 Set off – and without a meal (6)
5 To draw up about ten would be way out! (4)
6 Jocular talk which can get spiteful in time (8)
7 31 being put out, created a commotion (6)
8 Like an aquatic bird's back (6)
11 Managed little county farms (7)
14 Humiliated university people going into action (7)
17 Produce a brew of green tea (8)
18 A real downpour may well affect vision (8)
19 The person willing to check a corrupt backer (8)
22 A West Country town will show the way (6)
23 Took a seat – and even that's material (6)
24 A 100-line agreement (6)
27 Recommend a change of residence (4)

Solution 9,248

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FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

Saudi International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

Staines Fund Managers (Guernsey) Ltd

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

LGT Asset Management Ltd - Contd.

[illegible]

Murray Johnstone (Dublin) Ltd

Europa House, Harcourt St, Dublin 2 3531 407 2080

Murray Global Accumulation Fund Plc

Murray Financials Bond ..5 104.02 +0.10 8.18

Odey Asset Management Ltd

Baring Mutual (Ireland) Ltd

[illegible]

Tilney (Ireland) Ltd

IRELAND (REGULATED)(**)

[illegible]

Goldman Sachs

Gordon House Asset Management Ltd

HSBC UK Equity Plus Plc

[illegible]

Trainer Wortham & Company Inc

Ulster Bank Investment Services

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

[illegible]

JERSEY (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monet, L-2180 Luxembourg 352 434949020

	Selling Price	Buying Price	+ or -	Yield Gr's
Latin America Equity	$49.06	49.60	—	-
North America Equity	$65.13	65.58	—	-
Asian Tigers Equity	$84.41	85.05	—	-
Europe Equity	$75.80	78.10	—	-
Germany Equity	DM140.98	144.30	—	-
Japan Equity	$48.67	49.11	—	-
Europe Bond	$62.05	62.21	—	-
US Bond	$59.73	59.98	—	-
Global Bond	$61.88	62.04	—	-
Germany Bond B	DM109.92	110.17	—	-
Spain Bond	Pts10227	10253	—	-
Eastern Europe Equity F	DM1.76	162.13	—	-
China Equity F	$65.23	68.05	—	-
Switzerland Equity	SFr120.07	127.71	—	-

Abtrust Fund Mngrs Luxembourg SA (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227001

Abtrust Atlas Fund

	Selling Price	Buying Price	+ or -	Yield Gr's
Global Cap Portfolio	10.882		+0.042	-
United States Portfolio	$5.6950		-0.042	-
Cont Europe Portfolio	DM8.011		+0.063	-
Japan Portfolio	¥3.004		+0.003	-
Pacific Portfolio	$6.590		+0.077	-
Gold Portfolio	$5.287		+0.048	-

Fidelity Funds - Contd.

	Selling Price	Buying Price	+ or -	Yield Gr's
Italy	L14711		-49	-
Japan Smlr Cos	Y981.5		+8.9	-
Korea F	$1.334		+0.007	-
Latin America	$8.556		-0.026	-
Malaysia	$36.86		+0.08	-
Nordic	SKr203.4		+1.4	-
Singapore	$28.36		+0.24	-
Switzerland	SFr15.50		+0.05	-
Thailand	$25.99		—	-
United Kingdom	£1.152		+0.003	-
Bond Funds				
European	Ecu11.98		+0.03	5.87
International	$1.063		+0.002	5.27
US Dollar	$5.710		+0.003	6.10
Sterling	£0.253		+0.001	7.18
Yen	Y1000		—	2.35
Balanced				
European Balanced	DM13.10		+0.04	1.02

Prices as at December 15

Fleming Group (u)

6 Route De Treves L-2633 Senningerberg Luxembourg

00 352 34101 or 0800 890 284

Internet: http://www.flemings.lu/

Fleming Flagship Fund (daily dealing)

	Selling Price	Buying Price	+ or -	Yield Gr's
FFF American	$94.43	97.00	-0.15	-
FFF Amer Flad'ing F	$84.37	00.10	-0.45	-
FFF Asian Smaller Cos F	$10.45	11.06	-0.14	-
FFF China	$15.88	16.58	-0.01	-

Mercury Asset Management S.A. - Contd.

	Selling Price	Buying Price
Pacific	$19.78	20.83
Singapore & Malaysia	$31.41	33.07
United Kingdom	$41.05	43.20
Asian Opps	$26.93	28.36
European Opps	$34.28	36.09
Global Opps	$11.33	11.94
Japan Opps	$17.51	18.75
North American Opps	$42.98	45.23
United Kingdom Opps	$18.80	20.00
DM Reserve	DM112.7	112.15
Dollar Reserve	$108.39	108.40
Sterling Reserve	£118.77	118.78
Swiss Franc Reserve	SFr107.86	107.87

Mercury Offshore Stlg Tst-SICAV (u)

	Selling Price	Buying Price
Global	£1.780	1.862
Overseas	£1.873	1.994
European	£2.318	2.402
Japan	£0.847	0.888
North American	£2.530	2.678
Pacific	£2.242	2.382
United Kingdom	£1.909	2.022
Reserve	£0.875	0.922

Midland Intl Circuit Fund SICAV (u)

Midland Bank Fund Managers (Jersey) Ltd

PO Box 26, St Helier, Jersey

	Selling Price	Buying Price
UK Growth	£1.467	1.545
European Growth	£1.715	1.806
European Opps	$4.199	4.420

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual International (Guernsey) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
£ Stlg Managed	£4.521	4.861	—	-
£ European Stockmkt	£5.082	5.465	—	-
£ UK Stockmkt	£5.208	5.600	—	-
£ Sterling Special Mkt	£4.646	4.995	—	-
£ UK Fixed Interest	£4.881	5.250	—	-
£ Stlg Money Mkt	£2.986	3.211	—	-
£ Capital Guarantee	£1.722	1.851	—	-
$ Dollar Managed	$3.454	3.714	—	-
$ Intl Stockmkt	$4.495	4.831	—	-
$ US Dollar Bond	$1.413	1.520	—	-
$ Nth Am Stkmkt	$4.005	4.391	—	-
$ Japan Stockmkt	$1.605	1.726	—	-
$ Pacific Stockmkt	$5.445	5.858	—	-
$ Intl Fixed Interest	$3.930	4.225	—	-
$ Intl Mngd Currency	$2.484	2.649	—	-
$ Dollar Money Mkt	$2.277	2.448	—	-
$ Dollar Special Mkt	$1.099	1.182	—	-
$ Emerging Market Bond	$1.215	1.306	—	-
Swiss Franc Managed	SFr7.270	7.817	—	-
Swiss Franc Money Mkt	SFr1.298	1.394	—	-
DEM Deutschemark Mgd	DM2.771	2.980	—	-
$ Secure Stkmkt Index	$0.941	1.013	—	-
£ Secure Stkmkt Index	£0.942	1.014	—	-

AXA Asset Management

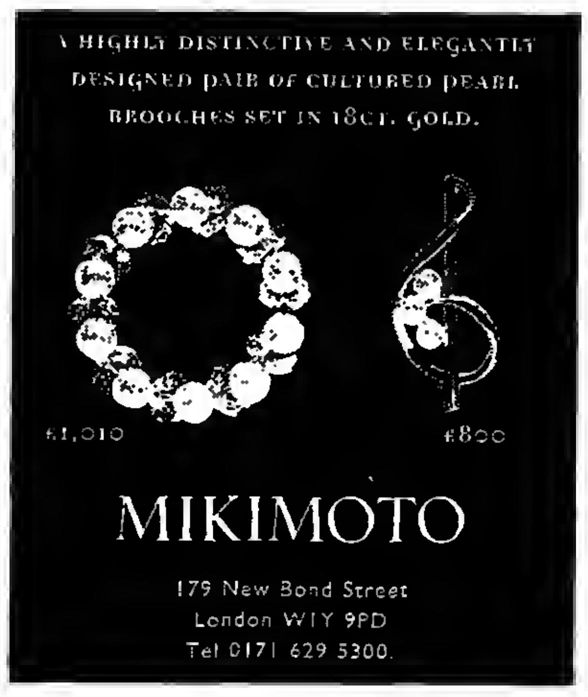
	Selling Price	Buying Price	+ or -	Yield Gross
AXA Valeurs	FFr1170.950		—	-
AXA Europe Actions	FFr296.880		—	-
AXA NPI	FFr123.700		—	-

Africa Emerging Markets Fund

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Dec 6	$12.85		—	-

Alliance Capital

	Selling Price	Buying Price	+ or -	Yield Gross
International	$18.06	18.96		-
International Class B	$17.17			-
Quasar	$27.65	29.40		-
Global Small Cap	$12.58	13.14		-
Global Small Cap Class B	$11.92			-



Westman & Leander-Engstrom Inv Mgmt Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
A Shares	$12.09		—	-
B Shares	$11.81		—	-

Worldwide Limited

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Oct 31	$76.19		—	-

Zanett Lombardier Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Oct 31	$203.54		—	-

Zweig-DiMenna International Limited

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Oct 31	$165.19		—	-

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses.

Prices of certain older insurance linked plans subject to capital gains tax on sales.

Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland/Irish Department of Enterprise and Employment
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois

Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:

(¶) 0001 to 1100 hours
(♦) 1101 to 1400 hours
(●) 1401 to 1700 hours
(♠) 1701 to midnight

The fund prices published in this edition are also available at the Financial Times' web site, http://www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

LIFE ASSURANCE - Cont.

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		4215		[illegible]	[illegible]	1,734	3.3	♣
Barlow		[illegible]	[illegible]	[illegible]	925	1,077	2.8	♣
Gold Flds Prop R		126	[illegible]	170	120	13.8	5.7	11.3
MK Props		85	—	98	80	2.61	12.7	—
SASOL		645	[illegible]	710	511	3,777	1.8	—
SA Brews		£14[illegible]	[illegible]	[illegible]	£14[illegible]	4,3[illegible]	2.2	♣
Standard Bank		£21[illegible]	[illegible]	[illegible]	£21[illegible]	2,9[illegible]	1.8	20.4
Tiger Oats		790	[illegible]	1270	770	1,188	2.2	♣
Tongaat-Hulett		747 xd	−1[illegible]	1247	676	707.5	2.2	♣

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' trends.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm −) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♣ Figures or report awaited
- ♦ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♣ Unregulated collective investment scheme.

a Yield based on annualised dividend	F Yield based on prospectus or other official estimates for 1995-96	FD (Foreign Income Dividend)
b Figures based on prospectus or other official estimates for 1996	L Estimated annualised yield, p/e based on latest annual earnings.	R Forecast annualised yield...
e Indicated dividend yield, p/e ratio based on latest annual earnings.	M Yield based on prospectus or other official estimates for 1995-96.	Abbreviations: xd ex dividend;
n Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings	N Dividend is paid in whole or part as a	xc ex scrip issue; xr ex rights; xa ex all;
z Dividend yield includes a special payment		xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

LONDON STOCK EXCHANGE

Wall St fear factor returns to haunt Footsie

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

A second wave of extreme nervousness about the vulnerability of Wall Street hit European stock markets yesterday driving UK stocks sharply lower.

The latest scares for London again started in the Far East, where the Tokyo and Hong Kong stock markets fell over 1 per cent amid increasing concerns that some Japanese institutions may be less inclined to support the US bond market.

There was also a story that one of the big Japanese banks was in trouble and having to sell assets in the UK and US to alleviate its problems. Suggestions that a profit warning from IBM, the computer giant, could be imminent, were largely shrugged aside, but not before it caused additional unease.

As the day wore on, there were other damaging rumours circulating, none of which carried much credibility but which nevertheless gnawed away at confidence. One of the big US brokers was rumoured to be telling its clients to sell US stocks.

The FTSE 100 index had painstakingly recouped all but 15 points of last Friday's 83.2 slide, induced by comments from Mr Alan Greenspan, chairman of the US Federal Reserve. But it went into a tailspin yesterday, closing a net 53.2, or 1.3 per cent, lower at 3,982.5.

At its worst, just before Wall Street began trading, the index showed a 71.9 fall. The FTSE 250 fared only marginally better than the 100 index, closing 45.1 or 1 per cent off at 4,366.8, while the SmallCap dropped 7.5 to 2,137.4.

Rumours of a worse than expected set of US producer price numbers for November were said to have been circulating in Asian markets.

In the event, the producer price figure came in only marginally higher than forecasts, up 0.4 per cent against an expected figure of 0.3 per cent.

Domestic events, including the resignation of Mr David Willetts, the paymaster-general, were mostly shunted to the sidelines as markets concentrated on events across the Atlantic.

Wall Street had a weak opening despite the relatively benign inflation data, which saw bonds retreat further from their initial losses in European markets.

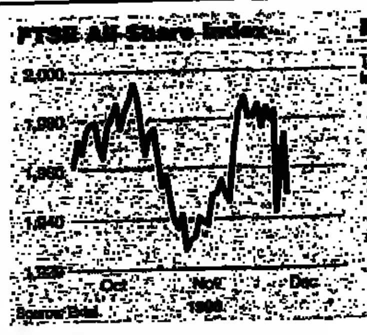
Marketmakers were not wholly surprised at the latest shakeout: "London got overly complacent on Monday and Tuesday, another big test was always on the cards," said one.

UK traders' fears that Wall Street would open weakly proved correct. The Dow was off 93 points within 30 minutes of the start of trading, rallied briefly, and then continued its slide, posting a three-figure fall just before London closed.

One of the more worrying signals emanating from London was the recent increase in turnover levels. At the 6pm count, some 830.4m shares had changed hands, similar to Tuesday's figure and well ahead of Monday's and last Friday's, suggesting, some dealers said, that the institutions had started to lighten weightings in UK stocks.

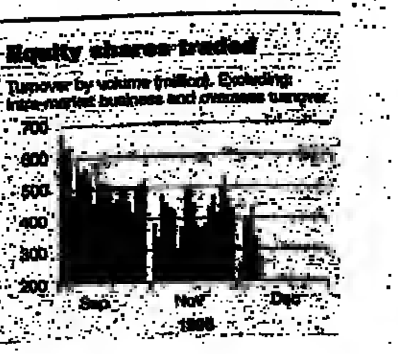
Customer business on *Tuesday* was valued at £1.34bn.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Source: Datastream

Indices and ratios

FTSE 100	3982.5	-53.2	FT 30	2751.7	-31.2
FTSE 250	4366.8	-45.1	FTSE Non-Fins p/e	17.69	17.89
FTSE 350	1978.7	-25.2	FTSE100 Fut Dec	3973.0	-75.0
FTSE All-Share	1951.14	-23.48	10 yr Gilt yield	7.63	7.51
FTSE All-Share yield	3.87	3.82	Long gilt/equity yld ratio	1.99	1.99

Best performing sectors

1 Tobacco .... +0.2
2 Gas Distribution .... +0.0
3 Support Services .... -0.2
4 Building & Const .... -0.4
5 Other Financial .... -0.4

Worst performing sectors

1 Insurance .... -2.2
2 Oil: Integrated .... -1.9
3 Mineral Extraction .... -1.7
4 *Banks: Retail* .... -1.7
5 Household Goods .... -1.7

Heavy action in Gas

British Gas showed surprising resilience as traders began to note the serious underweight position of some big investment institutions.

Mercury Asset Management, one of the UK's biggest fund managers, holds £38bn of UK equities – 4 per cent of the UK market. However, including the shares held through Mercury nominees, it has only 1 per cent of British Gas. And the market capitalisation of Gas represents 1 per cent of the FT All-Share Index.

The data comes from Citywatch, the equities ownership analyst. The Citywatch research also shows that Gartmore Investment Management, which holds more than 1.6 per cent of the UK market, has less than 1 per cent of Gas.

It is almost impossible to have a full weighting in the stock because of the 25 per cent held by "Sids", individuals who bought shares on privatisation. However, the imbalance among some of the UK's biggest fund managers is striking.

Mr Simon Flowers of NatWest Securities commented: "It is clear that to have been bearish in Gas through 1995 and 1996 was right. But last week's announcement on the capping of take-or-pay contracts aod tbe demerger gives institutions who are underweight reason for another look at the shares."

Yesterday, Gas was steady at 218¾p and the most heavily traded stock in the Footsie with 19m shares changing hands.

Materials company Cookson Group regained some of the earlier losses as the market focused on news that it had sold its pigments business to Hoechst Celanese, part of Swiss chemicals giant Hoechst.

At the end of the session, shares in the group were down just 6¼ to 211p, having been lower following trade of 4.3m.

Mr Richard Rae at ABN Amro Hoare Govett bad mixed feelings about the disposal for Cookson. He said said: "The deal is helpful in that it is earnings and cash-flow enhancing for 1997. But the market was taken aback by the size of loss on disposal."

Airtours, the UK's second largest tour operator, rose 11¼ to 714¼p after results ahead of expectations and upbeat comments about prospects for next year.

A number of houses upgraded forecasts, including UBS, which raised its estimates by £5m to £105m. Mr Nigel Hicks at BZW said that he held the stock on a "hold" but this reflected Airtours' recent strong run and the uncertainty caused hy the investigation into the travel industry by the Monopolies and Mergers Commission. However, be said that the company's overseas exposure, with operations in Scandinavia and Canada, improved its risk profile.

Abbey National was resilient in early dealing but the bank's quiet insistence that it had no intention of coming to any agreement with Prudential appeared to be paying off. The shares slipped 5 to 703½p while the Pru fell 15 to 468p.

Hanson was the subject of continued selling pressure said to come from US investors. The shares surrendered 3¾ to 80p, making it the worst performer in the Footsie.

Manchester United climbed 6½ to 584p after demand outstripped the supply of 3m new shares, some 4.84 per cent of the enlarged capital, which were placed at 585p. Funds raised will be used for a variety of purposes inclnding tha club's new North stand at its Old Trafford stadium.

Chelsea Village, an Aim stock, was unchanged at 117½p after a placing of 750,000 new ordinary shares at 110p each, with the issue of a further 30,000 shares to its brokers in respect of its fee.

David S. Smith, the paper and packaging group, fell on the back of a profits warning. Although interim profits were at the top end of forecasts, the company warned about the impact of sterling on future profits. Analysts downgraded their full-year figures and the stock fell sharply before rallying to end 7 lower at 299½p.

Chemring fell 45 to 290p after the company posted a elim rise in annual profits and warned of a disappointing level of sales in its defence unit.

Tobacco stocks defied the market trend as demerger and takeover stories persisted. Imperial Tobacco is seen as a possible target for BAT Industries if the latter hives off its financial services arm. Imperial rose 2¾ to 381p while BAT was firmer at 488½p.

Burmah Castrol, the oil refiner, was the Footsia's strongest performer as several brokers spotted the stock's relative underperformance against the market and turned 'trading' buyers. Selective buying pushed the tightly-traded shares up 20 to 1063½p.

London Electricity dipped 7 to 640p on newspaper reports naming it as the utility with which Northern Electric plans to merge its electricity and gas supply businesses as part of a bid defence. Northern, which is attempting to ward off a hostile £782m bid from CE Electric of the US, fell 10 to 601½p. Meanwhile, the remaining independent recs were sold off on fears that the outstanding bids will be referred to the Monopolies and Mergers Commission. Southern Electric fell 20 to 731½p and Yorkshire dropped 16 to 739p.

Chester Water lifted 11 to 165p after Dee Valley Water mada a recommended offer valuing it at around £20.3m.

New issue SDX Business Systems made an impressive debut. The shares, placed by Kleinwort Benson at 160p, ended the session 12½ ahead at 172½p. The UK group is a designer of digital business systems.

News that Aon Corporation of the US is buying rival insurance broker Alexander & Alexander for $1.23bn was seen as diluting the consolidation potential in the UK. Sedgwick and Willis Corroon fell 5 to 122½p and 4¾ to 129½p respectively.

In transport stocks, freight group NFC, which released figures for the year to September 1997 in line with market expectations, followed the market lower and closed 5 off at 175p.

Chartarhonse Tilnay, whose forecast was at the bottom of the market range, yesterday raised its current year forecast by £4m to £119m. It predicted earnings per share of 10.6p, a figure the broker indicated would have been higher but for the expectation of a "higher tax charge in the coming year."

British Airways fell 13¼ to 585¼p in trade of 4.6m, with Panmure Gordon said to hava reduced its current year profits estimate to £580m and the following year's figure to £600m. The broker was said to hava urged investors to sell.

FT 30 INDEX

	Dec 11	Dec 10	Dec 9	Dec 9	Dec 5	Yr ago	*High	*Low
FT 30	2751.7	2782.9	2772.8	2740.7	2797.1	2649.0	2886.2	2668.8
Ord. div. yield	4.14	4.09	4.10	4.14	4.05	4.05	4.22	3.76
P/E ratio net	16.67	16.86	16.80	16.65	17.03	15.86	17.46	15.80
P/E ratio nil	16.52	16.71	16.65	16.49	16.87	15.69	17.30	15.71

FT 30 since compilation: high 2886.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2765.0	2759.5	2761.2	2752.4	2754.3	2750.6	2747.7	2746.8	2751.3	2765.0	2739.5

	Dec 11	Dec 10	Dec 9	Dec 9	Dec 5	Yr ago
SEAQ bargains	34,935	38,321	37,010	42,424	36,338	27,454
Equity turnover (£m)†	-	1337.9	913.2	1231.3	1615.9	1858.5
Equity bargains†	-	19,395	20,862	22,966	20,301	32,258
Shares traded (ml)†	-	774.5	272.6	339.0	431.0	637.2

†Excluding intra-market and Crest business and overseas turnover.

	Dec 11	Dec 10	Dec 9	Dec 9	Dec 5	Yr ago	*High	*Low
FTSE AIM	1018.60	1022.10	1024.00	1019.90	1034.50	-	1140.40	965.70

 *For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	287	Total Highs	45	Total contracts	50,653
Total Falls	1,041	Total Lows	105	Calls	14,865
Same	1,248			Puts	35,788

Dec 11 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4003.0	3973.0	-71.0	4014.0	3956.0	25093	42159
Mar	4021.0	3990.0	-72.5	4030.0	3972.0	6911	22304
Jun	4018.0	4010.0	-72.5	4018.0	4008.0	210	2100

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

FTSE 100 INDEX OPTION (LIFFE) (3981) £10 per full index point

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock
00	F.P.	14.1	107½	100½	†Access Plus
§70	F.P.	18.5	84½	72½	Advanced Power
*	F.P.	10.2	100	100	†Archer Dedicated
§157	F.P.	39.8	184½	170½	Brands Hatch
§130	F.P.	34.2	162½	130	Britt Allcroft
§138	F.P.	51.7	165½	152½	Car Group
§200	F.P.	37.8	246	227½	Cadcentre

FT GOLD MINES INDEX

Regional Indices

Africa (14)	2171.59	+0.2	2167.96	2597.93	3.52	31.27	3563.86	2151.14
Australasia (8)	2158.29	+0.8	2141.99	2380.47	2.83	21.24	2827.34	2006.75
North America (12)	1793.48	+1.8	1761.52	1753.42	0.73	67.99	2186.39	1648.45

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 11	Day's chge%	Dec 10	Dec 9	Dec 6	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	3982.5	-1.3	4035.7	4011.6	3963.0	3662.4	4.00	2.03	15.43	167.61	1683.56
FTSE 250	4366.8	-1.0	4411.9	4385.0	4348.1	3942.3	3.61	1.50	23.14	171.98	1785.90
FTSE 250 ex IT	4404.4	-1.0	4446.2	4421.6	4384.7	3950.9	3.71	1.52	22.19	180.59	1805.42
FTSE 350	1978.7	-1.3	2003.9	1991.6	1969.3	1612.4	3.92	1.92	16.61	82.18	1698.41
FTSE 350 Higher Yield	1892.6	-1.3	1916.9	1906.0	1887.1	1809.1	5.21	1.79	13.38	103.10	1360.84
FTSE 350 Lower Yield	2072.1	-1.2	2098.2	2085.0	2058.7	1820.4	2.75	2.14	21.22	61.83	1454.88
FTSE SmallCap	2167.42	-0.3	2144.88	2137.44	2132.79	1844.34	3.23	1.57	24.60	68.27	1783.70
FTSE SmallCap ex IT	2136.35	-0.2	2141.35	2135.42	2133.49	1920.69	3.45	1.64	22.12	72.33	1795.95
FTSE All-Share	1951.14	-1.2	1974.62	1963.13	1942.22	1786.09	3.87	1.90	17.02	78.84	1690.21

FTSE Actuaries Industry Sectors

	Dec 11	Day's chge%	Dec 10	Dec 9	Dec 9	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	3797.39	-1.7	3864.56	3865.03	3809.53	3224.22	3.76	1.71	19.48	142.73	1664.45
12 Extractive Industries(6)	4019.48	-1.2	4069.21	4135.66	4080.74	4231.66	4.04	2.66	11.64	162.00	1198.00
15 Oil, Integrated(3)	3924.65	-1.9	4002.54	3999.84	3941.29	3272.45	3.83	1.55	20.49	154.36	1767.62
19 Oil Exploration & Prod(14)	2921.43	-0.6	2939.06	2892.60	2853.86	2022.67	1.81	1.79	40.01	52.93	1770.75
20 GEN INDUSTRIALS(275)	1955.92	-1.0	1976.53	1962.44	1936.07	1922.80	4.39	1.64	17.30	91.86	1092.61
21 Building & Construction(34)	1169.51	-0.4	1174.38	1150.29	1143.28	1011.39	3.61	1.51	22.98	40.70	997.53
22 Building Matls & Merchs(29)	1761.38	-1.7	1791.56	1786.32	1776.50	1759.27	4.40	1.40	20.26	77.54	910.19
23 Chemicals(25)	2349.28	-0.6	2370.79	2361.88	2348.01	2313.58	4.38	1.43	19.85	102.40	1140.24

CONTRACTS & TENDERS

TENDER ANNOUNCEMENT FROM BOTAS PETROLEUM PIPELINE CORPORATION

BOTAS intends to open an international bid for the construction of Dogubeyazit-Erzurum Natural Gas Pipeline having a diameter of 40" and approximately 300 km. in length. The required conditions for the companies which will participate the bidding, are the following:

- Having heen completed the construction of steel pipelines at least 50 km. in total length with the various diameters (10" and above)
- Having been completed the construction of industrial *plants and steel pipelines having a total cost of 20* million USD.
- To have the equipment and machinery with the sufficient amount which is necessary to construct the a.m. pipeline.

The companies satisfying tha a.m. conditions can participate the hidding individually or by forming consortium. At least one of the consortium members or the total of the consortium members have to satisfy the mentioned requirements in the case of appliance as consortium.

The tender bond of this Project is 3 million USD.

The companies or consortiums which satisfy the required conditions shall obtain the Tender Documents from the following address between the dates 13-25 December 1996 by paying the amount of 5000 USD. Final tender date is 28th February 1997 and bids will be opened in the presence of the representatives of the bidders.

BOTAS is not subject to Act No: 2886

ADDRESS:
BOTAS-Petroleum Pipeline Corporation
Department of Engineering and Construction
Güneş, Sokak No. 5
06690 Güvenevler/ANKARA/TURKEY

TRADING VOLUME

Major Stocks Yesterday

FTSE INTERNATIONAL

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 11 / Sch) [illegible]

BELGIUM/LUXEMBOURG (Dec 11 / Frs.) [illegible]

CZECH REP (Dec 11 / Koruna) [illegible]

DENMARK (Dec 11 / Kr) [illegible]

FINLAND (Dec 11 / Mkk) [illegible]

FRANCE (Dec 11 / Frs.) [illegible]

GERMANY (Dec 11 / Dm.) [illegible]

GREECE (Dec 11 / Drachma) [illegible]

ITALY (Dec 11 / Lira) [illegible]

NETHERLANDS (Dec 11 / Fls.) [illegible]

NORWAY (Dec 11 / Kroner) [illegible]

POLAND (Dec 11 / Zloty) [illegible]

PORTUGAL (Dec 11 / Escudo) [illegible]

SPAIN (Dec 11 / Pts.) [illegible]

SWEDEN (Dec 11 / Kronor) [illegible]

SWITZERLAND (Dec 11 / Frs.) [illegible]

TURKEY (Dec 11 / TK Lira) [illegible]

PACIFIC

JAPAN (Dec 11 / Yen) [illegible]

HONG KONG (Dec 11 / H.K.$) [illegible]

INDONESIA (Dec 11 / Rupiah) [illegible]

MALAYSIA (Dec 11 / MYR) [illegible]

NEW ZEALAND (Dec 11 / NZ $) [illegible]

SINGAPORE (Dec 11 / S$) [illegible]

AUSTRALIA (Dec 11 / Aus$) [illegible]

SOUTH KOREA (Dec 11 / Won) [illegible]

TAIWAN (Dec 11 / TW $) [illegible]

THAILAND (Dec 11 / Baht) [illegible]

AFRICA

SOUTH AFRICA (Dec 11 / Rand) [illegible]

NORTH AMERICA

CANADA

TORONTO (Dec 11 / Can $) 4 pm close [illegible]

MONTREAL (Dec 11 / Can $) 4 pm close [illegible]

Prices supplied by Telekurs.

INDICES

[illegible]

INDEX FUTURES

[illegible]

US INDICES

[illegible]

Industrials	873.23	881.43	868.47	887.40 (2/12)	702.07 (15/1)	887.40 (2/12/96)	3.52 (30/6/32)
Financial	82.47	82.44	81.60	84.83 (29/11)	58.87 (10/1)	84.83 (29/11/96)	7.13 (4/9/74)
NYSE Comp.	393.90	394.69	390.15	395.85 (25/11)	321.41 (10/1)	395.85 (25/11/96)	4.64 (25/4/42)
Amex Mkt Val	590.79	590.48	585.70	614.89 (22/5)	525.60 (16/7)	614.89 (22/5/96)	29.13 (9/12/74)
NASDAQ Comp	1312.55	1316.27	1287.58	1316.27 (9/12)	986.57 (15/1)	1316.27 (9/12/96)	54.87 (3/10/74)

RATIOS

	Dec 6	Nov 29	Nov 22	Year ago
Dow Jones Ind. Div. Yield	2.05	2.02	2.06	2.27
	Dec 4	Nov 27	Nov 20	Year ago
S & P Ind. Div. yield	1.83	1.81	1.84	1.85
S & P Ind. P/E ratio	23.05	23.30	22.99	18.96

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Micron Tch	5,642,600	34	-1¼
Black & Dk	4,448,300	31⅝	-6¼
Philip Mr	3,577,800	116⅝	+2⅝
Bay Ntwork	3,950,500	23⅝	-1⅝
Cypress Sm	3,514,000	15⅝	-⅛
Santa Fe P	3,219,590	16⅛	—
Cable Wire	3,161,700	22⅛	—
Nati Power	3,126,000	29⅝	-⅝
AT & T	3,082,000	38⅝	-⅛
Falcon Drg	3,021,700	35⅝	-⅛

TRADING ACTIVITY

● Volume (million)

	Dec 10	Dec 9	Dec 6
New York SE	448.115	381.573	487.799
Amex	21.537	20.293	27.235
NASDAQ	692.689	598.529	692.553
NYSE			
Issues Traded	3,335	3,331	3,313
Rises	1,385	1,930	562
Falls	1,135	635	2,054
Unchanged	815	766	697
New Highs	209	155	52
New Lows	21	15	68

S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	747.85	736.00	-12.00	747.85	736.00	70,116	150,263
Mar	—	743.10	-12.00	743.10	743.10	13,909	70,844

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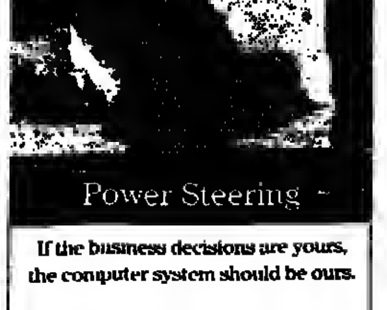
TOKYO - MOST ACTIVE STOCKS: Wednesday, December 11, 1996

	Stocks Traded	Closing Prices	Change on day
Oriental Land	8.6m	8600	
Keisei Elect Ry	8.0m	860	-72
Mitsubishi Hvy	5.2m	938	-10
Nippon Steel Cp	3.6m	333	-6
NEC Corp	3.6m	1400	-20
Hitachi	3.3m	1070	-20
Tokyo Gas	3.3m	324	-3
Fujitsu	3.3m	1100	
Kobe Steel	3.0m	247	-8
Bk Tk-M'bishi	2.9m	2130	-60

4 pm close December 11

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
21¼	11¼	AAR	0.40	1.7	26	552	29	28⅝	29	+⅞
40⅞	33	AMP	1.00	2.7	10	6036	37⅝	37	37⅝	-⅛
97½	69	AMR			18	6815	82¼	89½	91⅛	-1¼
50½	36⅞	ASA	1.48	3.0	24	635	37⅞	37⅛	37¼	-⅛
57⅞	38½	AbbotL	0.96	1.8	22	9541	53⅛	81⅛	52¼	-1
17¼	12¼	AbrGbl Pr x	0.40	2.8	1	4340	14½	14½	14⅝	-⅛
20¼	13½	ABM Ind	0.35	2.2	18	163	18¼	18	18	-¼
22½	13⅞	Acptocain			18	21	20½	20½	20½	+½
30	37¾	ACE Ltd	0.56	1.0	14	882	58⅝	58¼	58⅝	-⅜
18⅞	9⅛	ACM Gvt In	0.00	8.8	8	760	10½	10	10	-⅛
7⅞	6⅝	ACM GvOpp x	0.57	8.6		109	1¼	1⅛	7⅛	-⅛
9⅞	8⅛	ACM Man x	0.90	6.4		315	8⅛	9⅝	8⅝	
13⅞	8⅛	Acme Elect	0.32	4.2	58	68	1¾	7⅝	7⅝	-⅛
21⅝	13⅞	Acme Mkts			14	00	10¾	19⅝	19⅝	-¼
33¾	27¼	Acordia x	0.00	2.7	14	30	29¾	29⅞	29⅞	-⅛
24¾	12	Acuson			192	3337	21⅞	20¾	21⅝	-⅞
21⅛	17⅞	Adams Expr	0.55	2.8	0	279	19⅝	18⅛	18⅛	-⅜
27⅞	16¼	AdvMic			27	17533	26⅞	30⅛	26⅞	+⅝
11⅛	8½	Advest Grp	0.16	1.8	7	82	18⅛	16¼	16¼	-⅛
26⅛	9⅛	Aeno Inc	0.16	0.8	91	434	12½	11½	11⅞	-⅛
56⅝	41⅛	Aegon	1.45	2.8	17	55	55¾	55⅜	55¼	-⅜
9¾	3½	Aerflx			3	00	4½	4⅝	4⅝	-⅛
76½	57⅞	Aetna	0.80	1.1	9	7100	75¼	74	74½	-¾
44	28¼	Aflac	0.48	1.0	17	4029	42¼	40⅛	41¼	-¼
22	17⅛	AGL Res			15	551	31⅜	20⅞	21¼	-⅛
29¾	21¼	Ahmnsn	0.00	2.1	66	3750	32¾	32⅛	32½	-⅝
70	50⅞	AirPrC	1.10	1.5	18	3951	68¾	67⅞	68¾	
28⅞	19½	Airbne Frt	0.30	1.3	16	603	22¼	33	22¼	
27⅛	15½	Airgas Inc			38	253	24⅝	24¼	24½	-⅛



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NYSE PRICES

4 pm close December 11

Continued from previous page

- V -

- W -

- T -

- U -

- X - Y - Z -

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

e-new yearly low. P/E price-earnings ratio. dv-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

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AMEX PRICES

4 pm close December 11

NASDAQ NATIONAL MARKET

4 pm close December 11

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Rising bond yields send Dow tumbling

AMERICAS

Rising bond yields sent US share prices sharply lower at midsession, helping to erase all of the gains made so far this week, *writes Lisa Bransten in New York.*

The Dow Jones Industrial Average tumbled nearly 130 points at one stage but by early afternoon, it was slightly off its worst levels of the session with a loss of 91.49 at 6,381.76.

The Standard & Poor's 500 tumbled 10.14 at 737.40. NYSE volume was heavy at 303m shares.

Technology shares, which had led the way up as the market bounced back from Friday's sell-off, were also weak yesterday. The Nasdaq composite index slipped 13.28 at 1,289.27 and the Pacific Stock Exchange technology index was off 1.6 per cent.

Analysts cited rising bond yields as a trigger for the sell-off in shares that saw the Dow give up almost exactly all of the gains it had made in the previous two sessions. By early afternoon the yield on the benchmark 30-year Treasury had risen above 6.6 per cent.

Cyclical shares were hit hard both because of the rise in interest rates and because of a warning from Union Carbide that earnings in the fourth quarter would be hurt by rising raw material prices. The Morgan Stanley index of cyclical shares slid 1.6 per cent, while the counterpart index of consumer companies lost 1 per cent.

Shares in Union Carbide, which is a component of the Dow, lost $2⅝ or 6 per cent at $42⅝.

Interest-rate sensitive banks were also weaker. Citicorp lost $1⅞ at $101⅞, Chase Manhattan Bank shed $1 at $86⅝ and NationsBank fell $2¼ at $95⅝.

On the technology side, several larger capitalisation shares managed to buck the falling market. Intel, which is the largest company on the Nasdaq, added $4⅞ at $133⅞ after an analyst at Merrill Lynch reportedly raised his estimate of what the semiconductor maker will earn in 1997. Microsoft, the second largest Nasdaq company, managed to reverse an early loss and was $¾ stronger at $82⅝.

TORONTO fell steeply from the opening bell as Canadian stocks pushed lower on a broad front in line with Wall Street.

The 300 composite index was off 99 points in the first 15 minutes. At noon, it stood at 5,805.35, down 114.51. Trade throughout the morning session was described as moderate.

All 14 sub-groups within the index fell, led by heavy declines among banks, energy and golds. Among leading stocks, Alcan Aluminium fell C$1.10 to C$46.50.

Wall Street's woes exerted downward pressure on Latin American markets. SAO PAULO tumbled 2.4 per cent at midsession, when the Bovespa index stood 1,648 lower at 66,910 and as Telebras fell 2.7 per cent.

MEXICO CITY was marked down as sliding blue chips weighed heavily on thin volume. By midsession, the IPC index was 43.63 weaker at 3,263.43.

Early losers included Cifra, the retail stock, which lost 18 centavos at 10.16 pesos, and Modelo, the brewer, which lost 65 centavos at 44.85 pesos.

Bourses fall on transatlantic fears

EUROPE

The bull market tried to defend itself on both sides of the Atlantic. A story that Japanese investors would cut their buying of US treasuries was diluted on television and disputed by US traders and analysts; US analysts were also sceptical about rumours of a profits warning from IBM.

But weakness in US treasuries hit the dollar, and European bond and equity markets; and while continental bourses ended off their worst, falls of between one and two per cent were the order of the day.

FRANKFURT dropped 1.9 per cent, the Dax index closing 54.59 lower at an Ibis-indicated 2,836.86 after a day's low of 2,819.68. Turnover eased slightly, from DM10.9bn to DM10.4bn.

The big three chemicals continued to lead active stocks, trading in DM2.1bn between them. Their share price losses ranged between a drop of DM2.57 or 4 per cent to DM62.38 at Bayer, and one of just 34 pfg to DM70.88 at Hoechst, as it followed Tuesday's speciality chemicals merger with an offer for the minority in Roussel Uclaf, its French pharmaceuticals subsidiary.

Most carmakers also paid for the lower dollar, BMW losing DM30.70 at DM1,040.30. But Porsche prefs were an exception, leading the Ibis winners with a gain of DM50 or 4.1 per cent at DM1,270, following what Mr Chris Will at Lehman Brothers called a very positive analysts' meeting last Friday. After the weekend, Mr Will raised his price target to DM1,650.

PARIS moved lower in line with leading European bourses. The CAC 40 index slid 38.12 or 1.7 per cent to 2,213.28.

Motor stocks led the way down following downbeat comments from Mr Jacques Calvet, the chairman of Peugeot. Renault fell FFr3.80 or 3.3 per cent to FFr110.90 and Peugeot came off FFr15 to FFr590.

The Peugeot boss told a news conference that although he expected European car demand to remain stable next year, sales in France were likely to shrink by up to 10 per cent.

Dollar stocks were flat, notably LVMH, the luxury goods group, which tumbled FFr33 to FFr1,272. Energy leaders came down with oil prices. Total shed FFr5.60 to FFr397 and Elf FFr6.30 to FFr431.

Retailers had an active session following the early morning announcement that Carrefour had snapped up 33 per cent of GMB, which controls the French Cora supermarket chain. The move sparked a FFr4.80 bounce to FFr236 at Casino.

Carrefour came off FFr30 to FFr3,150. Its deal is seen as clearing the way for a link between Casino and the top retailer, Promodes, which dipped FFr24 at FFr1,382.

AMSTERDAM came off steeply, buffeted by weak bonds and a bad day for the dollar against the guilder.

The latter sparked heavy selling of international stocks. Philips, which has a big US shareholder base, was in the firing line, tumbling Fl 2.40 or 3.5 per cent to Fl 66.20 in volume of 5.2m shares.

Royal Dutch, off Fl 3.10 to Fl 283, also suffered from weaker North Sea oil prices which dipped below $23 a barrel. Unilever retreated Fl 3.80 to Fl 286.60.

At the close, the AEX index was off 11.77 or 1.89 per cent at 610.56.

ZURICH closed above its lows for the day, while Clariant added to Tuesday's 13.4 per cent advance with another of 12.6 per cent, in further response to the merger with Hoechst's speciality chemicals operation.

The SMI index sank to a low of 3,317.3, but recovered to close 27.8 weaker at 3,857.6 after the day's US inflation data sent mixed messages and the Dow's early losses proved less than some investors had feared.

Clariant jumped SFr64 to SFr572 as analysts calculated the fair value for the shares at between SFr600 and SFr700. One dealer said that part of the rise was attributable to banks covering Clariant options, while small investors were also active buyers.

The Novartis partners were weak, in spite of rumours that the US Federal Trade Commission would give its approval to the merger today.

Ciba dropped SFr16 to SFr1,606 and Sandoz fell SFr15 to SFr1,520.

A SFr450 plunge to SFr4,800 in Ksec, the high technology group, was attributed to a downgrade.

MILAN lacked impetus of its own and the Comit index gave up 9.29 to 643.09 as the market succumbed to the malaise enveloping neighbouring markets.

De Benedetti group companies remained in focus as speculation about stake-building by the Monaco-based businessman, Mr Luigi Giribaldi, prompted further early demand. By the close, however, Cir was L42.7 down at L897.3, but Cofide limited its loss to L1.4 at L879.8 and Olivetti was just L2.4 easier at L517.2.

Fiat bucked the trend to rise L10 to L4,313, apparently having found strong technical support at about L4,300.

STOCKHOLM featured a drop of SKr9.50 to SKr339.50 in Astra A as rumours of a Roche bid subsided. Investor, which said it had not been contacted by Roche about its Astra stake, fell SKr4 to SKr261 as the Affärsvärlden General index closed 41.9 lower at 2,311.4.

HELSINKI took the worst tumble in Europe, the Hex index losing 57.76 or 2.48 per cent at 2,424.95.

Forestries were weaker still. The sector fell 3.5 per cent as some analysts questioned whether the current round of pulp price increases would stick.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

Dec 11 THE EUROPEAN SERIES	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1862.54	1858.78	1856.19	1857.64	1855.88	1853.40	1851.95	1854.65
FTSE Eurotrack 200	1964.80	1957.37	1960.62	1958.38	1956.04	1957.02	1959.84	1956.59

	Dec 10	Dec 9	Dec 6	Dec 5	Dec 4
FTSE Eurotrack 100	1877.85	1862.65	1847.16	1853.77	1850.88
FTSE Eurotrack 200	1979.80	1967.05	1950.74	1953.76	1955.28

Joburg golds rise in mixed session

Shares in Johannesburg had a mixed session with industrial stocks streaming steadily lower but golds, underpinned by a better bullion price, edging upwards.

At the finish the overall index was off 27.3 at 6,639.1, pushed lower by a decline of 35.6 to 7,861.8 for industrial shares. The golds index rose 15.4 to 1,543.1.

Sentiment took its cue from a weak futures opening. According to traders, there was downward pressure from the derivatives market throughout the session. De Beers ended R1.75 lower at R133 and Gencor shed 20 cents to R16.75. Freegold was one of the more active gold shares, adding 60 cents to R35.85.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: December 6 1996	% Change over week	% Change on Dec '95	Local currency terms: December 6 1996	% Change over week	% Change on Dec '95
Latin America	(250)	528.41	+0.6	+12.0			
Argentina	(31)	812.08	+0.3	+13.8	569,261.34	+0.3	+13.9
Brazil	(68)	364.63	+2.6	+26.0	1,446.69	+2.6	+26.0
Chile	(45)	637.11	-2.5	-14.9	1,071.91	-2.5	-14.9
Colombia[1]	(14)	638.57	-0.5	+6.6	1,127.18	-0.5	+6.8
Mexico	(64)	518.88	+0.6	+14.5	1,773.64	+0.8	+14.5
Peru[2]	(19)	198.51	+0.8	+0.6	313.20	+0.8	+0.8
Venezuela[3]	(9)	681.28	-1.5	+103.8	7,413.62	-1.5	+103.8
Asia	(711)	249.98	-1.8	+7.7			
China[4]	(27)	70.88	+10.7	+31.0	74.27	+10.7	+31.0
South Korea[5]	(156)	82.49	-6.4	-34.5	90.12	-6.4	-34.5
Philippines	(42)	293.08	+1.1	+12.8	372.35	+1.1	+12.8
Taiwan, China[6]	(90)	152.60	+1.0	+35.3	157.54	+1.0	+35.3
India[7]	(79)	72.69	-2.4	-9.5	92.41	-2.4	-9.5
Indonesia[8]	(49)	127.65	+2.2	+18.4	163.02	-2.2	+16.4
Malaysia	(148)	325.52	-3.0	+20.0	302.79	-3.0	+20.0
Pakistan[9]	(28)	218.33	-2.3	-10.0	398.84	-2.3	-10.0
Sri Lanka[10]	(5)	99.32	-2.5	-4.6	122.97	-2.5	-4.6
Thailand	(87)	239.07	-5.9	-36.4	242.55	-5.9	-36.4
Euro/Mid East	(264)	133.23	-1.7	-5.9			
Czech Rep	(7)	64.81	+0.8	+8.2	58.95	+0.8	+8.2
Greece	(54)	238.75	-1.0	-1.2	383.36	-1.0	-1.2
Hungary[11]	(12)	177.00	-1.0	+79.8	339.37	-1.0	+79.8
Jordan	(7)	189.54	+3.4	-2.6	283.18	+3.4	+2.6
Poland[12]	(30)	700.76	-1.2	+64.4	1,256.24	-1.2	+64.4
Portugal	(28)	141.17	+0.8	+22.0	150.99	+0.6	+22.0
South Africa[13]	(63)	207.66	-3.0	-18.5	199.98	-3.0	-18.5
Turkey[14]	(58)	155.45	+2.4	+46.8	7,559.72	+2.4	+48.8
Zimbabwe[15]	(5)	439.46	+0.0	+60.0	696.61	0.0	+60.0
Composite	(1225)	291.28	-1.0	+5.6			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Bombay rebounded sharply from recent weakness on hopes that the Indian government would reconsider the imposition of a minimum corporate tax on companies, *writes Tony Tassell.*

The BSE-30 index leapt by a morale-boosting 5.1 per cent or 142.86 to 2,941.43 in heavy volumes. Analysts said that the market had been due for a technical correction after its recent hammering, which took the index to a three-year low last week of 2,713 from its high for the year of 4,131 on June 17. The rally started in unofficial after-hours trading on Tuesday night, following hints by Mr H D Deve Gowda, the prime minister, that his government might reconsider the 12.9 per cent minimum corporate tax, introduced in July's national budget. The comments sparked widespread covering of short positions by local speculators. Foreign institutional investors then joined in the buying, taking the opportunity to buy up oversold stock and carry out "window-dressing" of accounts before the year-end. A dealer with brokers James Capel Batlivala and Karani said the rally had been "heartening" but said there were some doubts about its sustainability.

Other analysts said there was scepticism over whether the minimum corporate tax would be repealed, given expectations that the government would struggle to meet its target of cutting the fiscal deficit in the year to March to 5 per cent of gross domestic product.

There were also long term problems overhanging the market such as political uncertainty, the slowing of economic reforms, an easing of economic growth and a fall in corporate earnings growth.

Nikkei drops on futures-related selling

ASIA PACIFIC

A sharp overnight decline in Chicago markets on reports that Japanese investors might reduce their holdings in the US Treasury bond market prompted heavy selling in TOKYO.

Local trading was dominated by the listing debut of Oriental Land, operator of Tokyo Disneyland, which resisted the downward slide of the broad market, *writes Gwen Robinson.*

The Nikkei 225 average fell 253.74 to 20,568.38, after moving between 20,466.66 and 20,755.74. Domestic and foreign investors took profits on solid recent blue-chip gains, particularly among pharmaceuticals, carmakers and electricals.

Volume eased from 337m shares to an estimated 321m. Declines led advances by 795 to 257, with 179 unchanged. The Topix index of all first-section stocks fell 18.09 to 1,524.90 and the capital-weighted Nikkei 300 by 3.68 to 283.70.

In London, the ISE/Nikkei 50 index fell 11.26 to 1448.57.

Oriental Land, listed directly on the TSE first section, peaked at Y9,030 before closing at Y8,800 in the day's heaviest volume of 8.4m shares. The flotation price was Y8,050.

Other leisure groups benefited from the interest in Oriental Land. Tokyo Dome, one of Japan's largest entertainment and sporting venues, rose Y30 to Y2,410.

In stark contrast, Keisei Electric Railway, a popular speculative stock and a leading shareholder in Oriental Land, retreated Y72 to Y860, a new low for the year.

NTT lost its momentum of recent sessions, although it fell only Y3,000 to Y909,000.

Some general contractors, however, hroke oot of their losing streak, with Shimizu gaining Y15 to Y905 and Nishimatsu Construction up Y30 at Y1,030.

In Osaka, the OSE average fell 218.44 to 20,887.57 in volume of 29.3m shares.

WELLINGTON shot ahead in some of the heaviest volume of the year following the formation of a new coalition government. The 40 capital index advanced 19.96 to 2,377.53 with rises leading falls by 84 to 21.

At NZ$97.6m, turnover was described as unusually high with a good two-way market developing in most leading stocks. NZ Telecom gained 8 cents to NZ$7.38 on turnover of NZ$25.1m.

The new government is committed to keeping New Zealand's widely acclaimed economic policies broadly intact.

HONG KONG reversed course during afternoon trade to close sharply down, as the market fell prey to worries about inflation and the negative trends in futures markets.

The Hang Seng index fell 152.86 to 13,169.60 after swinging from a high of 13,473.26 in the morning to a low of 13,125.93 at mid-afternoon. Turnover was a very heavy HK$11.6bn.

Finance shares led the market down. HSBC fell HK$2.50 to HK$159.

China's B shares slid on profit-taking after their huge rises in recent weeks.

SHANGHAI's B index fell 3.649 or 4.6 per cent to 80.685 while SHENZHEN's B index gave up 7.42 or 3.8 per cent to 186.45.

SEOUL continued to be supported by hopes of government measures to boost the market and the composite index finished 1.85 higher at 704.68.

KorAm Bank rose Won600 to Won8,160 on speculation that it could become the target of a bid battle, after Samsung Group raised its stake in the bank.

SYDNEY gave up early gains after the central bank cut its cash rate from 6.5 to 6 per cent. The All Ordinaries index ended off 2.5 at 2,359.3. Banks suffered extensive profit-taking. National Australia Bank fell 17 cents to A$18.08 and Westpac came off 7 cents to A$7.25.

MANILA rose steadily for the second day running with the composite index gaining 32.38 or 1.04 per cent to 3,160.76. Blue-chips led the rally with Ayala Land up 1 peso to 30 pesos and San Miguel B rising 4 pesos to 114 pesos.

DHAKA, closed on Sunday and Monday by investors' protests against a planned government credit squeeze, continued to gain ground. The all-share price index added 18.44 to 2637.84.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	Tue Dec 10 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	Mon Dec 9 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Dollar Index: 52 week High	52 week Low	Year ago (approx)
Australia (77)	217.92	0.8	195.59	156.13	176.04	180.80	0.9	4.22	216.25	194.61	154.90	175.00	179.17	224.61	186.70	186.70
Austria (24)	185.37	0.8	166.38	132.81	149.76	149.66	0.6	1.91	183.95	165.54	131.77	148.88	148.77	195.04	168.36	173.37
Belgium (27)	224.28	0.0	201.31	160.69	181.18	177.21	-0.2	3.76	224.23	201.79	160.62	181.46	177.53	229.11	200.45	200.45
Brazil (28)	184.78	0.1	165.85	132.39	149.27	352.39	0.3	1.74	184.51	166.05	132.17	149.32	351.38	188.70	131.21	138.83
Canada (116)	191.51	0.2	171.89	137.21	154.71	188.16	0.3	1.92	161.14	172.01	136.91	154.68	187.54	196.24	144.35	148.08
Denmark (30)	339.55	1.6	304.76	243.27	274.30	274.86	1.4	1.68	334.28	300.83	239.45	270.52	270.82	340.41	281.10	285.53
Finland (24)	244.11	2.6	219.10	174.89	187.20	238.15	2.4	2.11	237.91	214.11	170.42	192.53	232.88	244.11	171.73	207.82
France (93)	206.42	0.0	185.28	147.90	166.76	170.16	-0.1	2.87	206.47	185.81	147.90	167.09	170.33	212.49	171.33	175.28
Germany (59)	188.79	1.3	169.45	135.26	152.51	152.51	1.1	1.68	186.33	167.68	133.47	150.79	150.79	189.86	161.25	161.50
Hong Kong (59)	506.73	1.8	454.82	363.06	409.36	503.06	1.6	3.10	499.01	449.07	357.45	403.83	495.48	513.16	372.58	378.00
Indonesia (27)	223.25	-1.9	200.38	159.95	180.35	322.12	-2.0	1.60	227.69	204.90	163.09	184.28	328.86	-	-	-
Ireland (16)	315.88	0.8	283.52	226.32	255.16	268.79	0.7	3.41	313.22	281.87	224.36	253.47	266.88	321.14	250.17	254.11
Italy (58)	80.44	-0.2	72.20	57.63	64.98	92.03	-0.3	2.26	80.62	72.55	57.75	65.24	92.28	84.53	69.45	69.45
Japan (480)	138.18	0.7	124.03	99.01	111.63	98.01	0.7	0.76	137.30	123.56	98.35	111.11	98.35	164.88	136.54	152.92
Malaysia (107)	595.59	1.1	534.58	426.72	481.15	578.82	1.1	1.08	588.89	529.86	421.68	476.58	572.24	607.65	475.66	478.94
Mexico (27)	1196.86	-0.5	1074.24	857.51	966.88	10298.52	-0.9	1.07	1202.99	1082.60	861.71	973.52	10390.78	1326.65	936.49	980.86
Netherland (19)	316.40	-0.2	285.78	228.12	257.22	253.31	-0.4	2.92	319.08	287.15	228.56	258.22	254.32	328.12	265.24	265.37
New Zealand (15)	81.35	-1.2	81.99	65.45	73.80	69.35	-0.3	3.96	92.47	83.22	66.24	74.83	69.56	94.40	75.84	77.04
Norway (35)	288.15	1.1	258.64	205.02	231.17	251.83	0.8	2.01	283.14	254.60	202.81	229.13	249.72	286.15	222.24	226.63
Philippines (22)	201.25	1.7	180.63	144.19	162.58	263.67	1.7	0.63	197.88	178.08	141.75	160.14	259.36	-	-	-
Singapore (43)	417.54	0.7	374.77	299.15	337.31	269.38	0.6	1.00	414.76	373.25	297.09	335.64	267.87	465.21	371.28	386.50
South Africa (44)	319.83	0.8	287.07	229.15	258.38	327.72	0.7	2.39	317.45	285.68	227.39	256.90	325.31	437.76	314.20	387.40
Spain (37)	202.22	1.4	161.51	144.89	163.37	200.22	1.1	2.99	196.48	179.52	142.89	161.43	187.94	202.22	157.91	157.91
Sweden (48)	414.53	0.7	372.07	297.00	334.88	419.15	0.5	2.03	411.69	370.49	294.90	333.18	417.03	416.67	294.19	309.39
Switzerland (37)	238.41	0.4	213.98	170.91	192.60	196.06	0.3	1.51	237.39	213.63	170.04	192.11	195.48	254.34	219.29	227.11
Thailand (45)	108.83	0.0	97.68	77.98	87.92	108.01	0.0	3.18	108.61	97.82	77.94	88.08	108.01	193.95	107.39	164.49
United Kingdom (213)	267.92	0.9	240.47	191.95	216.44	240.47	0.6	3.95	265.54	238.97	190.21	214.89	238.97	273.83	222.43	222.57
USA (623)	304.36	-0.3	273.16	218.07	245.88	304.36	-0.3	1.97	305.22	274.67	218.63	247.00	305.22	307.82	243.34	252.17
Americas (794)	278.33	-0.3	249.82	199.42	224.85	234.09	-0.2	1.96	279.05	251.12	199.88	225.82	234.68	281.50	222.53	229.69
Europe (720)	230.84	0.7	207.19	165.39	186.48	200.18	0.5	2.89	229.29	206.35	164.24	185.56	199.21	234.56	194.31	195.29
Nordic (137)	355.51	1.1	319.09	254.71	287.20	313.81	0.9	1.99	351.56	316.38	251.83	284.50	310.93	355.51	261.13	277.32
Pacific Basin (875)	156.33	0.7	140.31	112.00	126.29	113.07	0.8	1.25	155.20	139.66	111.17	125.59	112.22	177.01	153.86	182.75
Euro-Pacific (1595)	187.26	0.7	168.08	134.17	151.28	145.92	0.6	2.10	185.96	167.35	133.21	150.49	145.03	191.51	175.04	176.21
North America (739)	297.90	-0.3	267.12	213.22	240.42	296.74	-0.2	1.97	298.37	268.51	213.73	241.46	297.49	301.15	237.55	245.74
Europe Ex. UK (507)	206.03	0.6	184.93	147.62	166.45	175.37	0.4	2.27	204.92	184.41	146.78	165.83	174.66	209.70	174.81	175.95
Pacific Ex. Japan (395)	313.26	1.0	281.17	224.44	253.07	269.67	1.1	2.77	310.17	279.13	222.18	251.01	266.88	317.82	257.81	258.13
World Ex. US (1810)	189.38	0.7	169.98	135.68	152.99	151.28	0.6	2.08	188.12	169.30	134.75	152.24	150.38	193.47	176.03	177.26
World Ex. UK (2220)	221.52	0.2	198.83	158.72	178.96	180.63	0.2	1.83	221.14	199.01	158.41	178.96	180.33	224.89	196.13	196.02
World Ex. Japan (1953)	271.43	0.1	243.62	194.47	219.27	256.46	0.1	2.33	271.03	243.90	194.14	218.33	256.22	274.88	224.52	227.00
The World Index (2433)	225.51	0.2	202.41	161.57	182.18	185.24	0.2	2.03	224.87	202.45	181.15	182.06	184.85	228.97	198.47	200.25

Latest prices were unavailable for this edition. Market closed 10/12/96: Thailand.

CAMBRIDGE

Information technology was behind the last period of rapid growth which came to a halt with recession. The latest telecommunications and biotechnology-led surge appears more firmly based, writes **Richard Adams**

A second phenomenon in Fenland

Cambridge is going through a period of rapid economic growth – a product of an extraordinary level of activity in science and technology within the city and its region.

But is it really a boom, or a bnbble? Cambridge residents could be excused for being sceptical about the durability of a surge built upon high technology, because the city has seen it all before. The Cambridge economy enjoyed high levels of growth throughout the 1980s, as a result of the strength of new technology and service industries in the region.

Rapid growth in the number of small and medium-sized businesses helped unemployment fall below the national average, as job growth rose annnally by about 3 per cent. By the end of 1989, the monthly total of unfilled vacancies reported by the Cambridge Jobcentre was 1,200.

But a year later, in December 1990, unfilled vacancies had plummeted to about 200 as the downturn in the UK economy took its toll and many of Cambridge's promising high technology companies shrunk, failed, or were taken over.

The "Cambridge phenomenon" of the 1980s was generated by the performance of companies working on computers and semiconductors, such as Acorn and Sinclair, together with the research of Cambridge University. At the time it seemed that one or more local companies would grow into world-beating, multinational companies in the high tech sector.

Instead, the "phenomenon" came to refer to the inability of city's high-tech industry to capitalise on its undoubted scientific expertise in the face of international competition.

Cambridge and the region around it are now going through another surge, again fuelled by high-tech industries. This time, biotechnology and telecommunications have supplanted computing as the fashionable sectors.

Cambridge has the highest concentration of emerging biotech companies in Europe. A report this year by consultants, Ernst & Young, claimed the UK had 93 per cent of the European Union's biotechnology companies. East Anglia is the UK's leading region for biotech activity, and 80 per cent of those companies are situated in Cambridge. Readers of the companies pages of the FT will know many of these, inclnding Chiroscience, Peptide Therapeutics, Ethical Pharmaceuticals, Pharmagene, and Axis Genetics.

Similarly, Cambridge's heavy concentration in information technology firms means names like UUNet-Pipex, Ionica, Vocalis, CADCentre and others are becoming familiar.

But will Cambridge's second phenomenon prove more durable than its first? Mr Jim Martin, director of the East Anglia office of 3i, the investment capital group, thinks it will be. 3i is backing a large number of young high technology companies in the region, with a total of nearly £170m, and is making investments in 160 independent businesses.

"The potential in thie area really is outstanding," said Mr Martin. "It is just wonderful visiting some of these companies and seeing what is going on."

The difference this time, according to Mr Martin, is that companies have become market-orientated rather than product-led, as was the case previously.

"These companies can now attract high quality management, and they are mnch more market focused. They recognise the need for sneccessful technology businesses to take a global approach to their markets," Mr Martin said.

"The Cambridge technology phenomenon is probably the nearest thing we have in Europe to what has happened in Silicon Valley in the US," he said. Indeed, some participants call the area Silicon Fen.

A recent report* on the telecommunications industry in Cambridge by Analysys Publications, said the new Cambridge telecoms companies all demonstrated an understanding that, withont markets, their products were worth nothing.

"This is in stark contrast to the stubborn belief of many of the first generation companies that, because their technology was the best, it would sell itself," it said.

But not everyone agrees. The report quotes Mr Robin Saxby, the chief executive of Advanced Risc Machines (Arm), as believing that the city's industries are still more concerned with technology than with markets. "It's no good inventing the damn stuff if we just give it away to the rest of the world," Mr Saxby says. He describes the city and its inhabitants as having "the lowest wealth over brain power ratio in the world".

The growth of the second Cambridge phenomenon has given a big boost to employment in the city and its sub-region. In the 1993 annual census of employment, private sector research and development – the eector that includes most high technology firms – accounted for only 3.2 per cent of employment in Cambridge, a total of 2,400 jobs out of 76,000. By 1996, Cambridge city council estimated that research and development in the high technology sector accounted for 19,000 jobs in 600 firms within the region. Half of those are in Cambridge city itself.

With growth in such a specialised area, there is a danger the second phenomenon could be cut short by a skills shortage. But Mr David Best, a director of the Bioscience Innovation Centre, which is developing the UK's first purpose-built business incubator, argues that is not likely to happen within the next few years.

"We don't really have a skills shortage at the moment. We're lucky that because of the first Cambridge phenomenon, lots of high tech people are here, or are willing to come here," Mr Best said.

But for all the excitement and activity surrounding the high technology sector, Cambridge's principal employment sector remains education. In the 1993 employment census, education accounted for 17,000 jobs – elmost 23 per cent of total employment. That includes research staff based at the university, as well as teachers and snpport staff in colleges and schools.

Cambridge is also an important shopping centre, with a potential catchment of shoppers that includes tourists, students and the surrounding region. The retail sector employs nine per cent of the local workforce.

The region's growth has caused problems, including heavy rush hour traffic congestion in the centre of Cambridge. Meanwhile, the demand for housing continues to outstrip supply, causing accommodation prices to rise sharply.

Mr Christopher Carcy, residential partner for Bidwells property agents in Cambridge, says that activity this year has been significantly up on 1995.

Bidwells estimate that, within the last year, prices have risen by around 5-7 per cent for properties worth more than £250,000, and by up to 12 per cent for larger properties. Part of the rise is attributed to higher house prices in London, as buyers seek to take advantage of the fast transport links between Cambridge and the capital.

Since the late 1980s, Cambridge City Council has been concerned to limit the pressures on the centre of the city. After a study with the University's Department of Land Economy, the council decided to encourage the dispersal of industry and housing to the north of the city and throughout the region.

That aim has been partly successful, as more development takes place outside the city council's area. Centres such as Peterborough and Ely are feeling the effects. In the future "the Cambridge phenomenon" may come to be more rightly known as "the East Anglia phenomenon".

**The Cambridge Telecoms Phenomenon, editor Susan Ablett. Analysys Publications, 1st Floor, Quayside, Cambridge CB5 8AB. Telephone 01223 341300, fax 01223 341317.*

IN THIS SURVEY

■ **Science-based businesses:** by Richard Adams

An enviable record for start-ups

Consultancies were quick to recognise the potential in local research activity

From research into genital warts to developing internet worms, a swarm of high technology companies in Cambridge is helping make the city the envy of Europe.

The coocentration of start-up companies, often based around scientific research, has been the key to the region's success io attracting business and investment.

In the mid-1990s, the spotlight is on the biotechnology industry, just as in the 1970s and 1980s it was Cambridge's success in computers and telecommunications that led to what was called "the Cambridge phenomenoo".

Mr Jim Martin, the director of 3i Cambridge, arrived in time to experience the eod of Cambridge's last technological surge, which was killed in part by the recessioo of the early 1990s. He attributes the commercial success of high-tech industries in the area to a number of research and design consultancies: Cambridge Consultants, formed in 1960, the Technology Partnership, and the Generics Group, among others.

These consultancies helped recognise national and international markets and the potential of the research activity in the Cambridge region.

"A lot of the new businesses in Cambridge have started from these consultancies," Mr Martin said.

While the latest wave of Cambridga's high-tech work has been biotechnology, telecommunications and information technology – foundations of the 1980s "phenomenon" – are still important contributors.

Mr Martin recalls an Internet start-up company called Unipalm, founded in 1986, approaching 3i in 1991 for investment. "Even then, no one had heard of this Internet concept," Mr Martin said.

3i first invested in the company in 1992, taking a 28 per cent stake in the company for £1m. When Unipalm was floated on the London Stock Exchange in 1994, it became the first Internet service provider in the world to go public.

Today, the company – now called UUnet Pipex after its merger with US-based UUnet – is Britain's largest provider of Internet services to companies, part of a telecommunications conglomerate and in the midst of being acquired for the third time in two years.

The European headquarters for UUoet Pipex is still

> Recent growth in high-tech has been focused in biotechnology and related industries

at the Cambridge Science Park.

Despite its location, in one respect Unipalm was unusual for a Cambridge high technology company: it had no links to the university.

But Cambridge Neurodynamics, based at Cambridge University, has recently started a company called AutoNomy that combines the biotechnology and information technology industries.

AutoNomy has designed internet tools that use technology based on neural network pattern recognition, emulating the way a human brain works. AutoNomy's software includes an intelligent agent, a variation on an internet "worm", a program that can be told what to look for and come back with a list.

Chiroscience: speedy success is unusual in an industry where drugs can take years to develop

It studies ordinary sentences and picks the important parts, before setting off on a searcb that runs in the background of a computer. What is different about AutoNomy's Guardian Agent program is that it learns as it goes and remembers the results of previous searches.

Another agent can sift through incoming e-mail, filter out circulars and junk mail, and fax urgent messages to the user's home or hotel room.

Another of the established companies from the first wave of the phenomenon is Acorn Computers.

Acorn pioneered educational computing in the UK with BBC Micro, and it now plans to become one of the first companies to sell a "network computer" – a simple, cheap computer, designed to surf the Internet.

It won a contract in January from Oracle, the largest computer software group in the world after Microsoft, to design a family of network computers costing around £300.

The contract demonstrates the positive advantages of the Cambridge network of firms. Acorn's opportunity came in part from its relationship with its sister company, Advanced Risc Machines (Arm), and its experience with interactive television trials, also in the Cambridge area.

Arm, in which both Acorn and Apple Compnter have a large stake, designed a range of advanced microprocessor chips for interactive television devices, and can include many of the functions of a network computer on a single chip.

Bnt the focus of recent high-tech growtb in the region has been in biotechnology and related industries. The biggest of these success stories is that of Chiroscience.

Chiroscience was founded in 1992 by Mr Chris Evans, a leading figure in the biotechnology industry in the UK, to specialise in developing pure drugs from "chiral" compounds.

Earlier this year it raised £40m through a share placement, giving it a total market capitalisation of around £300m.

Chiroscience's main drugs in development are an enzyme-blocking inhibitor for arthritis, which is going through clinical trials, levobupivacaine, a local anaesthetic which has produced good results in more advanced trials, and various cancer drugs.

Analysts say that tha arthritis inhibitor could be worth £600m, while levobupivacaine could win a market worth up to £60m. Not bad for a company that has yet to show a profit, and with only 200 employees in tha UK.

Chiroscience went international when it bought anothar biotech firm, Darwin Molecular, based in the US, to increase its number of drugs in development.

Cambridge Science Park: European headquarters for UUnet Pipex — Ashley Ashwood

The purchase meant that Mr Bill Gates, founder of Microsoft, took a small stake in the Cambridge company, having owned a 14 per cent stake in Darwin.

The speedy success of Chiroscience is unusual in an industry where drugs can taka years to develop and gain regulatory approval. It can take years before investors begin to make a return on their money.

Some companies try to develop drugs and profits more quickly by making alliances with larger firms. For example, Cambridge's Cantab Pharmacauticals has joined with pharmaceuticals giant SmithKline Beecham to develop and market Cantab's new vaccine for genital warts. Under the terms of the agreement Cantab could receive up to £24m, plus royalties.

But there are signs that, even in Cambridge, the growth in biotech is not infinite.

In July, Cambrio, a fledgling Cambridge bioscience company, abnndoned its planned stock market flotation in the face of lack of interest from investors, which the company blamed on a general fall in biotechnology company share prices.

PROFILE **Ionica**

Huge network of friends

'Cambridge precocity' helped form Ionica's 'outrageous' challenge to BT

Nigel Playford makes the decision to start Ionica, his fledgling telecommunications company, in Cambridge sound totally natural.

"I had a house here and it's an attractive place," he says.

Yet he also says that without the network of friends in the city and its unique atmosphere, Ionica would not have been able to capitalise on his "pretty outrageous" idea of using radio telephone technology to compete against British Telecommunications in the residential market.

The "brain centre" of operations: some 500 people are employed on this site — Ashley Ashwood

Mr Playford founded the company five years ago by working in his living room for six months. "In reality, I was getting help from a huge network of friends, all in Cambridge and covering all commercial and scientific disciplines," he says.

The network of friends was chiefly a result of his seven years at PA Technology, a consultancy which focused on telecommunications and electronics and which has been described as one of the "original" Cambridge phenomenon companies.

When Mr Playford joined the company in 1979, aged 23, it was full of other bright young things who were put in charge of a variety of industrial projects, many of them international, and which included the design of the Plessey payphones.

Mr Playford describes the atmosphere of the place as having "no secrets", with lots of open discussions.

He eventually became director of the group's North America subsidiary but left in 1986, along with a number of his peers, frustrated by the company's refusal to increase share ownership among employees.

Among Mr Playford's colleagues at PA were the five founding members of Symbionics, a design service company set up in the late 1980s. When Ionica employed just four people and was going through the rigmarole of winning an operating licence from the Department of Trade and Industry, Symbionics provided seed funding and office space.

It now has about 5 per cent of the company, which could be listed on the stock exchange next year.

Mr Graham Norgett, Symbionics' group marketing manager, describes the "real strength of Silicon Fen" as the fact that "we all know each other fairly well here and tend to network fairly easily". The two companies have offices close together at the St John's Innovation Centre.

Mr Playford mentions a host of other contacts which he believes have helped give the city a special quality.

"Cambridge has precocity," he says. "It has a group of people who came together in the last 20 or 30 years and who have this kind of why-shouldn't-we-do-this attitude." This precocity helped form Ionica's "outrageous" response to the "sleepy behaviour" of BT.

At times, the story of the Cambridge phenomenon as told by Mr Playford can sound like a scientific version of *Peter's Friends*, the film about continuing relationships between a group of university buddies.

Yet he was born in Leeds and studied electronics at Imperial College, London. Apart from adding prestige to the name of the phenomenon, the university's most important contribution to date for Ionica was the decision of St John's college to build an innovation centre.

Mr Playford credits the college's "far-sighted bursar, who was willing to take a risk on a company with 10 people and not much more money" in 1992.

The college spent £7m building the site, which now houses a number of fledgling companies as well as Ionica. Mr Playford was particularly pleased that the group was involved in the design arrangements. His office is open plan with a central atrium which increases the light.

Some 500 people are currently employed in this "brain centre" of Ionica's operations. A further 500 contract staff are employed as engineers or maintenance workers around the country.

Although the preliminary investment banking work has been done, Mr Playford still has reservations about flotation and the vagaries of the market.

However, while he is contemplating the alternatives, the group is "more likely than not" to float next year. Two regional electricity companies own 34 per cent of Ionica, while the management and employees own 16 per cent and investment houses some 20 per cent.

The group is forecast to be serving some 1m UK customers by just after the turn of the century, when it is also forecast to become profitable for the first time.

Having recently appointed an international manager of operations, the company is also keen to start serving global customers, especially in emerging markets where the high cost of building fixed telecommunications networks has left many services inadequate.

While Mr Playford envisages the need to set up a London office, he cannot imagine moving its headquarters from Cambridge.

"People like living here," he says. "It would be very difficult to persuade them to move."

Jane Martinson

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PROFILE Cambridge Cable

A pioneer in its field

Mr Brian Gillinder, information technology teacher at The Netherhall School in Cambridge, presses a button on a television remote control set and brings up video footage of a recent school field trip to Dorset.

Nothing too unusual about that, except Mr Gillinder has accessed the field trip tape through a multimedia system supplied by the Cambridge Cable interactive TV trial. Teachers at The Netherhall School, along with the other 108 schools and homes participating in the trial, are able to call up the field trip on their TV screens for use whenever they want.

The field trip is one example of the material the Netherhall School is producing and putting on to the interactive network. Participants in the trial are also being offered a choice of interactive services by companies euch as Tesco and the BBC.

These inclode video-on-demand, news and documentaries, education programmes, home shopping and banking, and games. "It is a very useful teaching tool for us," says Mr Gillinder. "Using the interactive technology we are able to manipulate the video we call up in a very sophisticated way, making it ideal for the stop-start and go-backwards you need to do when teaching."

The Cambridge trial is one of a few in the UK attempting to pioneer multimedia in education and entertainment. The Cambridge trial began in September 1994 and is operated by a consortium involving Cambridge Cable, ICL and Online Media, owned by Olivetti through Acorn Computers. The consortium bopes the trial will provide a valuable insight into what interactive services consumers want delivered to their homes, schools and businesses.

The Cambridge trial is using fibre optic cables to the kerb and coaxial copper cable from there to the user. A two megabits per second ATM (asynchronous transfer mode) link enables images to be received in seconds. These are accessed through e set-top box similar to a small video recorder. ATM is a fast "packet-switched" technology which allows data of many kinds – voice, images or full motion video – to be sent on request across a fibre optic cable in "packets", or bundles, each of which has a fixed length.

Cambridge Cable says services for users change regularly, and that it is now viewing interaction with the internet as one of the system's key attractions. Participants are being offered web browser tools to enable them to download video from the Internet.

For example, this should enable participants in the trial to access parts of the BBC television news service through the BBC's web site. Clicking on to a news item on the BBC web site should trigger the playing of a television report of the same news item. "The Internet application is fast becoming the key element of the trial," says Mike Prymaka, director of business telecoms at Cambridge Cable.

By the third quarter of next year Cambridge Cable hopes to have developed its multimedia technology sufficiently to be able to expand the trial. Mr Prymaka says expansion of the trial is to be based on network computers, which instead of running as stand-alone computers like PCs, plug into a network and use the Internet.

"It is a long way off being a core business for us," Mr Prymaka says. "But as we move into the next stage, more people in Cambridge will be participating and it could become extremely exciting."

William Lewis

PROFILE Acorn Computers

Multimedia ambitions

Education has played a pivotal part in the history of Acorn Computer, the Cambridge-based computer group in which Olivetti of Italy holds a substantial stake. Chris Curry and Hermann Hauser, who were both working in Cambridge at the time, founded the company in 1978 to exploit the university's growing reputation for computer expertise which was at the time attracting a number of high-tech companies to the city.

The two entrepreneurs formed Acorn to market computer products and in 1980 the first commercial micro-computer, the Atom, was launched in kit form. The Atom was one of the first home computers affordable to average income families and provided Acorn with an early lessoo in addressing the mass market.

The company's biggest break came, however, in 1981 wben it won the contract to design and manufacture the BBC microcomputer, later to become the most popular computer in UK schools. The BBC micro provided many with their first experience of computers and is still regarded with affection by users who have loog since moved oo to less cumbersome models. At the time, the BBC Micro was twice as fast as its nearest rivals and cheaper. It also offered more sophisticated graphics.

As productioo increased, the BBC Micro's sales expanded to include higher education and research, small businesses and bomes – including games and teaching products. Meeting the special demands of the classroom also provided Acorn with the expertise it was later to use in designing computer products for a geoeration of Internet users.

"Acorn has traditionally had equipment in the harshest environment of any desktop computer – which is schools," says Mr Kevin Coleman, Acorn director of communications.

"In a school you get 30 different users, changing every hour, who don't own the equipment, don't bave any responsibility for it, and want to hit the machine. We bad expertise in producing low cost products, displayed on poor quality screens or televisions, which had to be robust." The company bas been reorganised over the past few years to reduce dependence on sales of traditional computer hardware and to concentrate on the development and licensing of intellectual property. Information technology solutions are oow marketed to UK schools through Xemplar Education, a joint venture with its former rival Apple.

Acorn sees interactive multimedia – from the Internet to digital television – as ooe of its most important growtb areas and, together with companies including Anglia Television, the BBC, NatWest Bank, IPC Magazines and Tesco, belped found the Cambridge interactive television trial in 1994.

Tbe scheme tests tbe technical and commercial viability of supplying services through the information superhighway directly to bomes and business. Acorn believes the experience gained througb the trial has helped it to win contracts to supply set-top box technology for interactive television schemes being developed throughout the world.

The televisioo trial also helped it to secure an agreemeot with Oracle Corporation to develop and license a range of low-cost oetwork computing designs to make it easier for ordinary people to use the Internet – whether at home, in their office or a botel room.

Mr Coleman says many customers are now coming to Acorn with proposals coonected with the Internet.

Midge Gillies

Mature industries: by Jane Martinson

Deep-rooted histories

Manufacturing and engineering categories now embrace smaller companies

Cambridge's push to become a "technopolis" is based on its rapidly expanding high technology sector, which can leave the local industries based on older technologies looking like a dying breed.

Yet while traditional manufacturing and engineering employment has declined in recent years there are still several larger companies with histories which are deep-rooted in the university town.

While the city is dominated by service jobs, which include the university and retailers, the county council estimates that about 18 per cent of the 109,590 working population of the city and its immediate environs are employed in manufacturing and engineering industries.

> Older, larger companies have been forced to consolidate or cut jobs in the past 10 years

Ms Jill Tuffnell, leader of the county council's economic research group, says that while the percentage bae not cbanged significantly since the early 1980s, the figures hide a change in the structure of local employment.

The manufacturing and engineering categories now embrace smaller companies or those which have sprung up as a response to new technological developments such as pharmaceutical or software manufacturers and new working practices, such as service engineers.

The older, larger companies have typically been forced to consolidate or cut jobs in the past 10 years.

"Historically, the local economy was reliant on a few big companies," says Ms Tuffnell. "Now it'e reliant on significantly smaller companies."

While Cambridge is not unique in the UK in this decline of larger industries, the growth of smaller high-tech groups has, perhaps, made the shift more pronounced. The city and its immediate environs have long attracted each new wave of high technology companies, but the few big science-based companies – such as Marshall, Cambridge University Press, Phillips Business Communications and Leica – are growing much more slowly than the smaller newcomers.

Mr Walter Herriott, managing director of St John's Innovation Centre, one of the region's many high-tech parks, says that 25,000 jobs have been created in the new fields in the past 15 years. The total turnover for these companies is now between £1.5bn and £2bn, he says. "From a national point of view, what we should be doing is encouraging new business to grow in this fertile eoil," he adds.

Instrumentation is one example of a narrowly defined sector where there is evidence of declining employment. Countywide figures suggest employment has dropped from more than 4,000 in 1981 to an estimated 3,200 this year.

The changing nature of this business is exemplified by Leica, the instrumentation company based in Cambridge and formed by the 1990 merger of Swiss company Wild Leitz and Cambridge Instruments.

The latter was founded before the end of the last century by Horace Darwin, the grandson of Charles Darwin. It developed into a high-tech business with products ranging from school-type bench microscopes to high resolution scanning electron microscopes. It was then one of several high-tech companies made part of the Labour government's National Enterprise Board.

But by the time it was merged with Wild Leitz, part of a private Swiss company, Cambridge Instruments had won the dubious distinction of being one of the market's worst-performing issues since its 1987 flotation. Hit by fears in the semi-conductor market during the stock market crash, its share price had collapsed.

The newly merged company, which went private in 1991, was restructured. It now employs 350 people, down from a peak of about almost 800, having spun off several companies and entered into joint ventures with others.

> Strong local links are evident at Marshall, the vehicle and aerospace group

Mr Max Pocock, managing director, says many jobs went because of the disposals and because the company changed its working practices. It now farms out raw materials for basic manufacturing to both local companies and foreign ones, for example.

Despite the changes, the company feels deeply rooted to the town. Almost half of its employees are university graduates, although not all of these are from Cambridge. The company also benefits from research and networking opportunities.

"I think it is very much a partnership. We think we are important to Cambridge, but equally Cambridge is very important to us," says Mr Pocock.

Strong local links are evident at Marshall, the privately-owned vehicle and aerospace group which was set up in Cambridge 88 years ago. The group employs 3,200 people. While this level has been roughly stable since the recession, a decline in the military sector has seen the total employed in the group's core aerospace division fall from more than 2,000 to about 1,500.

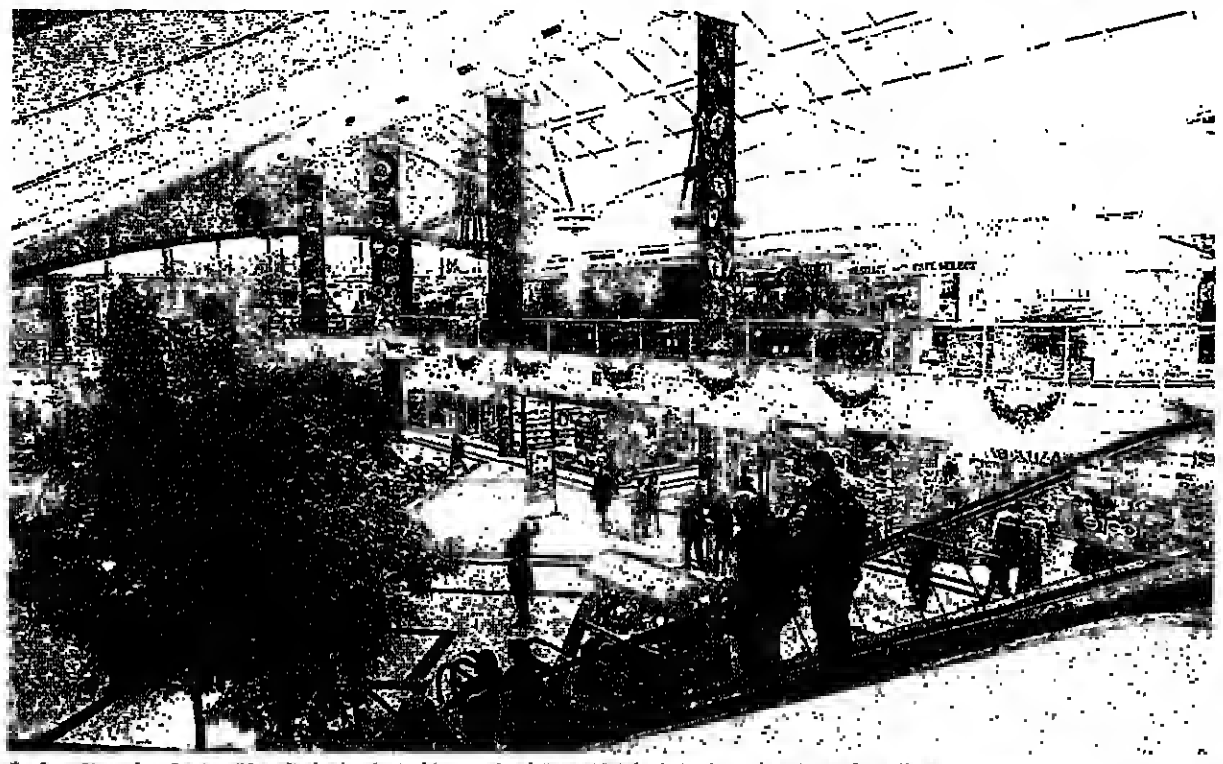
Mr Michael Marsball, company chairman and chief executive and the founder's grandson, says that throughout "difficult turbulent" times for the industry it has continued to take on between 25 and 30 apprentices each year.

The group's dominance of local employment opportunities has changed significantly in the past 40 years or so. "When we first started this business, we were the only technology company in the area," says Mr Marshall. "Otherwise, employment depended on Chivers Jams or the university, or working for the local council. Now there is much greater capacity in smaller, high-tech businesses."

This view is echoed by Mr Guy Mills, the county council's economic development officer. "While there used to be mayhe 12-20 major employers in the area, now there are hundreds."

In spite of their decline, he believes the value of the larger, older companies must not be understated. While they employ a significant proportion of graduates, their value to the economy also depends on their usefulness in employing people with a wide range of skill levels.

"These companies are still significant employers in the area and we are keen to retain employment in these kind of sectors," be says. "It'e not just people with PhDs who are looking for work here."



Grafton Shopping Centre: The city is dominated by service jobs, which include the university and retailers Ashley Ashwood

Public and private partnerships: by Motoko Rich

Co-ordinated effort needed

Local civic and business leaders are planning to secure future investment

Public and private sector leaders in Cambridge have been demonstrating a rather unusual level of humility lately.

"There is a recognition in this area that we did quite well in the late 1980s attracting business, but we cannot sit back on our laurels," says Mr Guy Mills, economic development officer at the Cambridge County Council.

Mr Nicholas Russell, owner of Larman Printers and chairman of the Cambridge small business group, agrees.

"There was a feeling for a while that Cambridge is such a special place that we did not need any form of planning, partnership or help, but we do," he says.

In order to assure Cambridge's leadership as a hub for high-tech and science-intensive industries, local civic and business leaders have decided to band together to organise the prototype for a regional development agency which would co-ordinate the efforts of public agencies and private business to attract investment not only into the city of Cambridge, but into the south Cambridgeshire region.

Last month, the first meeting of the Economic Partoership for Southern and Ceotral Cambridgeshire was held. Representatives from the Cambridge City council, district councils in South Cambridgeshire, East Cambridgeshire and Huntingdonshire, the County council, the Confederation of British Industry, CambsTec – the local training and enterprise agency – the Government Office Eastern Region and local business leaders gathered to discuss a planning strategy for the development of the region over the next 15 years.

"We are getting to the stage where we feel there needs to be a more formal umbrella organisation to co-ordinate various activities in the public and private sectors," said Mr Mills.

Efforts within the region to pull together the activities of the public and private sector are suddenly flowering as an Eastern Region investment agency – covering Cambridgesbire, Suffolk, Norfolk, Hertfordshire, Essex and Bedfordshire – has also been established as the first step towards the establishment of a regional development organisation.

"We are the only region other than the sonth-east which does not have a regional development organisation," says Mr Tim Cracknell, economic development officer at Cambridge City council.

> Efforts to attract significant investment into the region are fragmented

"So it means we miss out on investment opportunities. We do not want to get outstripped by other regions, and a regional development agency will help ensure that we are one of the more buoyant economies."

At the moment, efforts to attract significant investment into the region are fragmented between several agencies, including the Tec, the councils and various trade organisations.

"Everybody is chasing a small number of employers," says Mr Cracknell. The umbrella organisations will provide single points of contact for potential investors who will have inquiries about infrastructure, training and other local facilities."

For Cambridge, a regional development agency is important because it will allow it to contain growth within the city limits.

Because the city itself is quite small – its population is only 110,000 – and tha streets are old, allowing heavy industry into the city could exacerbate already difficult traffic conditions.

"There is not room to build large scale manufacturing in Cambridge, and if we allowed companies to build here, they would have to recruit people from outlying areas, which would cause congestion in the medieval streets," says Mr Cracknell.

"More than two-thirds of the workforce in Cambridge already comes in from outside so we have serious parking and congestion problems."

Because the city is quite small, and the streets are old, large-scale manufacturing could exacerbate already difficult traffic conditions and cause congestion in the medieval streets *Picture: Ashley Ashwood*

However, the city council would like to espouse a policy of "dispersal", in which companies interested in coming into the area would be encouraged to stay within the greater central and south Cambridgeshire region.

With a regional development agency, it would be easier for the city council to refer investment applicants to other areas with higher unemployment and better infrastructure.

Mr Russell recalls that when Wellcome, the pharmaceutical company taken over by Glaxo, approached Cambridge city council about a site, it was told the city could not sustain the facility.

"Lnckily the company decided to build its site in south Cambridgeshire and provided 800 jobs," says Mr Russell. "But there should have been a mechanism by which they could be told that although the city is crowded they might want to consider elsewhere in the region. That is a company that might have taken its work offshore because we had rebuffed them."

In the formation of a development agency which would attract inward investment into the region, the organisers are targeting biotechnology, call centres for industries moving into telemarketing, distribution companies and businesses from the food industry.

Mr Alan Maltpress, chief executive of CambsTec, said the Economic Partnership for Southern and Central Cambridgeshire and the embryonic Eastern Region investment agency would be discussing the issues which regions trying to attract inward investment typically must address.

"Inevitably, we will come to the usual classic issues: is the transport infrastructure good enough, are the business parks in the right place, do we have the right skills?" said Mr Maltpress.

"Now we have to come together to discuss these issues because public planners traditionally have not talked enough to business leaders."

Mr John Peace, president of the Cambridge and District Chamber of Commerce and chief executive of J&S Technical Services, a national sulphur trader, said he was initially sceptical about the forums bringing together public and private leaders.

"Initially, I thought it would be another layer of organistion that would confuse even further," said Mr Peace.

"But having been to the inaugural meeting, I think it is a very healthy thing because it means we will have a vehicle for lobbying for inward investment rather than separate organisations making aeperate pleas."

Property: by Graham Bowley

Shortage of office space is looming

Commercial prices have started the climb back to levels last seen in the 1980s

Cambridge is experiencing a recovery in commercial property prices which is exciting office-owners and property investors alike. It is in the words of Mr Patrick McMahon, head of investment at Bidwells, the property survayor,"one of the areas in the country which is performing its socks off".

According to Mr Martin Cooper at Cambridgeshire County Council, there was oversupply of commercial property in the city during the recession earlier this decade. Prices which reached a peak of about £24 per square foot in the late 1980s, plummetted to around £8 per square feet by 1993.

"But now available office space is diminishing very rapidly, especially industrial space, and the pressures are recurring," said Mr Cooper.

These pressures, caused by the city centre's tight planning constraints and the resilient growth of the city's economy, mean that prices are now back to about £15 a sqnare fcot. "We are getting back to where we were pre-recession" said Mr Cooper. Bidwells foracasts that prices will reach £20 by 1999.

Tha return to pre-recession levels is crucial if developers are to be encouraged to dip their toes back into the property market. According to Mr Jonathan Burroughs at Bidwells: "We will now start to see speculative office developments for the first time in well over five years."

The shortage of industrial space is proving especially acute. The county council is encouraging companies to look at alternative locations outside Cambridge, in particular in nearby towns such as Huntingdon, Ely and Peterborough.

Some companies wonld prefer to remain in the city centre, which offers an attractive location, coupled with shops and other amenities. Companies also fear that they might lose staff if they move out of the centre.

But for many businesses, easier access, good car parking facilities and the space to grow have become more important and they have chosen to locate or relocate outside the city.

The shortage of space within the cantre has encouraged the development of a number of thriving business parks on the fringes of the city. Vision Park ou the northern edge of Cambridge covers 11 acres of land, virtually all of which is now full.

A large new business park has been proposed, again on the northern fringe of the city. Two competing hids, one by retailers, Sainshury's, and the second by Anglian Water and Railtrack, have heen nut forward.

Sainsbury's proposal is for a relatively small, mainly retail-based park, while Railtrack and Anglian Water's plan is for a larger initiative with leisure facilities and space for industry and high-tech companies. The latter plan would cover 167 acres, offer 300,000 square feet of shop space, 215,000 square feet for business development, and 200,000 square feet for leisure facilities. It would include homes, a hotel, and parking and transport links.

Cambridge Science park, which has been developed over the past 25 years, oow covers 130 acres of land and has a total of 1.05m sq feet of office space built at present. With more than 70 companies, there are more than 3,000 people employed on the park, 1,200 of which are employed hy the eight US companies present. According to the county council, 10 acres are left for development "in the near future".

On the southern side of the city, there are plans for another park, called Peterhouse Technology Park, which would he the latest development on a green-field sita in tha area. It is intended that this 12-acre site would mainly be for research and development companies.

While most new development has focused on the northern edge of Cambridge, development on the southern side of the city has proved more difficult. This area of farmland and villages is popular with London commuters and development has been limited by conservation concerns.

Mr Burroughs said the pressures in the city have arisen hecause of the Cambridge economy's success in areas such as high-tech industry and research and development. The growth in these areas has encouraged other industries which service them.

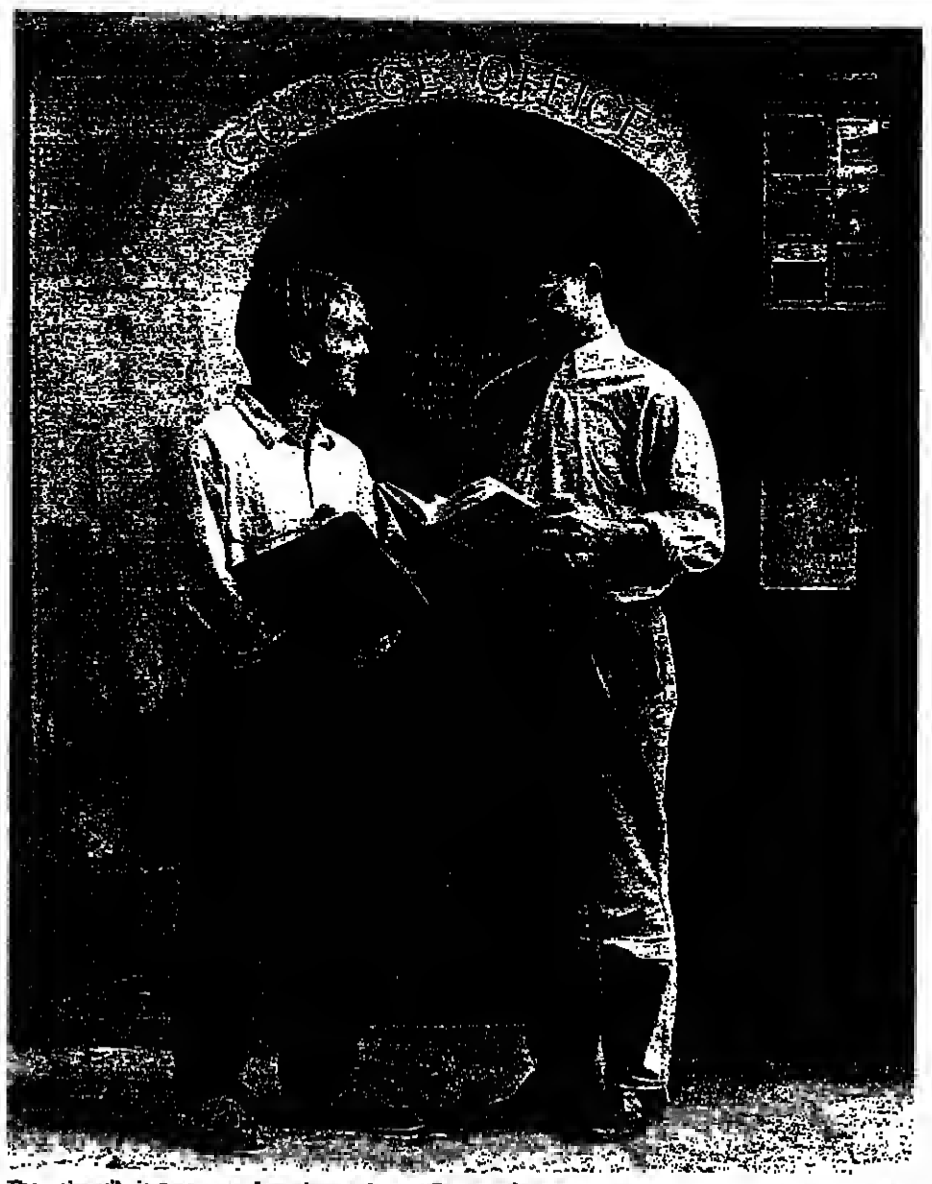
"There are now some big requirements so more businesses are moving in," said Mr Burroughs.

Pressures are also emerging in the residential property market. Owing to the take-np of new land for huilding, the number of plots of available land has dwindled from 2022 in July 1989 to 1918 by December 1995.

"Because developers can sell the houses they huild in Cambridge, the demand for residential huilding land has remained high," said Mr David Bateman, associate partner at Bidwells.

He said Cambridge University, Addenbrooke's hospital, the science park and the city's achools were all responsible for the continued high demand for residential property.

He calculates that the average price of an acre of developahle land is now about £700,000, although this varies around the city. There is a slight north-south divide in Cambridge in terms of attractiveness of location, with the south side being the more attractive



The university is a source of employment as well as employees

Picture: Tony Andrews

■ **Training and employment:** by Midge Gillies

Labour pains in several sectors

The city is paradoxically short both of jobs and the right kind of employees

It is ironic that a city dominated by a university with a world-class reputation should suffer from a skills shortage. But several sectors have complained of problems in recruiting the right people.

Preliminary results from research carried out this year by CambsTEC (the Training and Enterprise Council for the area) shows that engineering companies in particular find it difficult to recruit good people.

The problem is partly one of image. "Engineering companies complain that young people don't want to go into their industry because it's not glamorous and because they've seen people made redundant in the past," Mr Alan Maltpress, managing director of CambsTEC, says.

There is also the question of money: small to medium companies from a range of industries struggle to offer competitive salaries.

Compounding these problems is the fact that hi-tech companies, which were first attracted to the area in the 1980s partly because of the university, have skimmed off the cream of the most talented people. Research by Cambridgeshire County Council shows that in late 1993 the city and South Cambridgeshire employed 23,000 people in hi-tech jobs such as electronic engineering, research and development, computer services and telecommunications.

The flip-side of this skills gap is, of course, unemployment. The growth of these sorts of companies has contributed to "blackspots" such as the middle of Cambridge where unemployment among young males is about 10 per cent. Although the level of unemployment among this group fell between 1993-95, it is starting to rise again.

"Everyone has to be computer literate, be able to communicate, work in a team, and be able to read and wrlto. There's a big group of people still leaving school without those skills," Mr Maltpress says.

One company trying to close the skills gap is the Marshall group, which has been based in Cambridge since 1909 and is one of the biggest manufacturing employers in the area. The company is privately owned and is divided into three main areas. Its motor business sells cars through dealerships as far apart as Leicester in the Midlands, Croydon, south of London, and Ipswich in Suffolk.

It also makes bodies for specialist vehicles such as those used by military customers and its aerospace business repairs and services aircraft at Cambridge airport, which it also runs. In total, it employs 2,200 people. Mr Gordon Schofield, director of personnel, says the company finds it difficult to recruit specialist workers such as stress and avionics engineers and usually has to advertise nationally because there are few aircraft companies in the area. In 1991 it introduced an adult training scheme because it was finding it difficult to recruit fitters. The scheme, which runs alongside Marshalls' long-established apprenticeship programme, has attracted workers aged between 20 and 40.

"It's proved very successful – almost more so than the apprenticeship scheme because we've got the commitment from adults who are willing to acquire a trade and the skills they've missed out on earlier in life."

Mr Schofield believes that the growth of hi-tech companies has meant that manufacturing industry is better served in some areas. As an example, he points to the emergence of training companies that have developed to serve the hi-tech community but which are also useful to manufacturers who need advice on information technology.

"There are several spin-offs from other people who trade with hi-tech companies. There is an interchange of skills and knowledge that comes around."

Marshalls also occasionally taps into the expertise at Cambridge University by allowing undergraduates to undertake project work as part of their degree and sometimes taking the student on after graduation.

The university is a source of employment as well as employees. A total of 7,000 people – ranging from lecturers to lab technicians and gardeners – work for it or for its 31 colleges, which are run autonomously. The university, together with other educational bodies, hospitals, and central and local government, represents the biggest group of employers in the city.

Probably the next biggest area of employment is tourism, which supports an estimated 6,650 jobs through catering, hotels and shops.

Business support services are also increasing and Mr Maltpress says that more companies are beginning to view Cambridge as the centre of East Anglia and choosing to have a regional base in the city. He adds that road and rail links and its proximity to Stansted Airport all make it the area's natural base.

The region's TECs are also working with local government to set up a new eastern region investment agency based in Cambridge to attract more companies to the area.

The question is how will all these companies be staffed? CambsTEC remains concerned that the skills shortage will become more acute as the century draws to a close. It forecasts a 32-per-cent increase in demand for managers and administrators up to the end of the decade. It also expects an increase in the number of women at work – from 37.8 per cent of the local workforce in 1981 to 43.9 per cent by 2001.

CambsTEC's response is to try to promote the idea of the modern apprenticeship for all industries and to build partnerships between schools and colleges and employees. But it is also trying to persuade companies to invest more in training and less in cutting corners by poaching skilled staff from their rivals. Only then will Cambridge have employees of a calibre to match its worldwide reputation.

■ **Transport:** by William Lewis

Congestion takes its toll

Extra jobs and poor public transport have led to traffic congestion

Located at the point where the main route from the Midlands to East Anglia crosses the River Cam and several tributary valleys converge, Cambridge came into existence and prospered as a centre of communications, with successive developments in Roman, Saxon and Norman periods.

Today, transport and communications have moved from being ona of Cambridge's main assets to one of its biggest problems. Traffic congestion, overcrowding and parking problems were voted the worst thing about living in Cambridge in a recent survey.

At peak times, roads running through the region suffer congestion, but it is the roads in and out of the city which represent the most pressing transport problem.

On the most important radial roads leading into the city there was an overall increase in traffic crossing the city boundary of 50 per cent between 1980 and 1992.

While 35 per cent of peak-hour journeys by city residents in Cambridge are by bicycle, only 6 per cent are by bus, 31 per cent by car and 14 per cent by foot. For people living outside the city, in South Cambridgeshire, the car is even more popular, accounting for 73 per cent of peak-hour journeys.

The city council forecasts that if current trends continna, traffic wanting to cross the city boundary will increase by 66 per cent over the next 10 years.

"This would add to both to road safety and environmental problems, affecting all road users including pedestrians, cyclists and bus passengers, together with deterioration of the environment in areas adjacent to main roads and in residential areas unprotected from through traffic," Mr Barry Louth, principal transport planner at the city council, warned in a recent transport policy paper.

The main cause of the congestion problem has been Cambridge's success in attracting new employment. Since 1981, the total number of jobs in Cambridge has increased by 25 per cent to 80,000, plus another approximately 5,000 jobs supported by tourism.

However in contrast with the growth in employment, most of which has taken place in the city, most of the growth in housing has taken place beyond the green belt. "Since employment growth has been greatest within the city, the effect has been to pull more highly paid workers into the area and to increase pressure on tha housing market," Mr Louth says.

Another cause of the traffic problems "is tbe extremely poor public transport in the area," says Mr Robert Tuckwell, lead officer in transportation planning at Cambridgeshire county council.

There has been a steady decline in bus passangers over the past few years, estimated at approximately 3 per cent a year, and this decline has been compounded, council officials say, by the deregulation of bus services which has led bus operators to concentrate on profitable routes at peak times.

The local railway service is used mainly for commuting to London and is not used much for commuting into Cambridge city.

Poor public transport and high car usage has led to concerns about the environment and safety. Cambridgeshire has the highest road accident casualty rate per head of population of any English county. For example, in 1992 there were 622 road accidents in Cambridge, 77 per cent of which involved cars.

In terms of casualties the most serious accident problem is the number of cyclists injured.

The number injured in 1992, for example, was 65 per cent higher than in 1981.

Council officials say that efforts to solve these serious traffic problems have, in the past, been hampered by the split in powers between the city council, county council and South Cambridgeshire district council who have been pursuing different transport policies. A number of schemes have also failed. For example, a scheme to provide the free use of bikes the city failed when all but a few of the 200 bikes were stolen.

Officials from the three councils say that they are currently working together on a number of initiatives which could help dilute Cambridge's traffic problems. Tha first initiative is the development of park-and-ride sites, which allow commuters to park their cars on the outskirts of the city and complete their journey into Cambridge on a bus.

A new park-and-ride site opened at Madingley Road to the west of the city earlier this year. It provides free parking for 450 cars and offers a bus connection into the city centre every 10 minutes. Development of the site cost £1.8m and was funded jointly by the county council and city council. Stagecoach, the bus operator, has bought three new buses worth £250,000 to operate the service from the Madlingley Road site.

> A traffic managment initiative follows injuries to over 500 people in the past five years

The county council bas received planning consent for anotber park-and-ride site at Newmarket Road to serve the east of the city, and further sites are being proposed.

Of the two other park-and-ride sites currently in use, council officials say that the site at Cowley Road to the north of the city may be redeveloped, but the Clifton Road site in the south is too small and is located in the wrong area.

Another initiative will in January lead to the city and county councils closing Bridge Street, whicb runs through the historic city centre, to through traffic. Council officials say that if the experiment proves successful they will extend the scheme to all roads in the so-called "core area" of the city.

The introduction of this traffic managmeot system follows injuries to more than 500 people over the past five years in road accidents within the core area. Council studies have also found that about half of all cars entering tbe core area do not require access and are passing through.

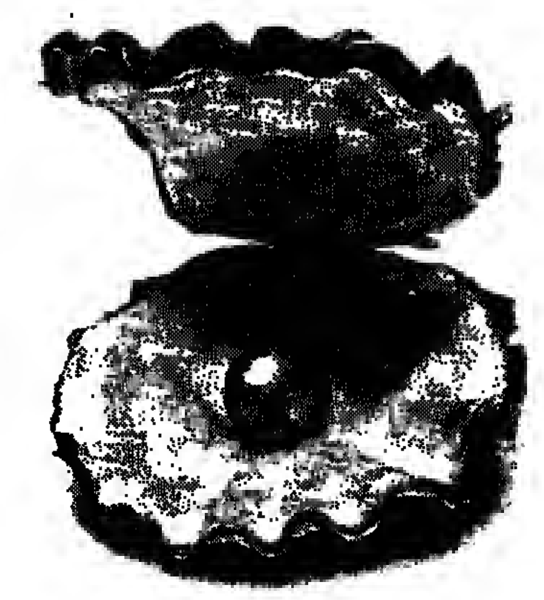
Environmental concerns are also a factor: "Air quality monitoring sbows the narrow streets in the core area experience high levels of pollutants produced by motor vehicles," the county council says.

Council officials say that computer models have been used to assess the likely impact of the road closure scheme, but admit that it conld backfire, simply increasing congestion on other roads running through the city.

"We shall be monitoring the situation very carefully over the experimentaly period," says Mr Tuckwell.

Cambridge centre: poor public transport and high car usage has led to concerns about the enviroment and safety

Ashley Ashwood



■ Tourism: by Jim Kelly

Welcome to the city... please stay

Visitors find this city the place to be, but for only a few hours

Cambridge – one of Europe's great medieval university cities – has no problem attracting tourists. It does, bowever, have great problems managing them... and even greater problems persuading them to stay long enough to truly benefit the local economy.

Tha city council made clear its concern earlier this year when it laid out e plan for the future. "The main aim of the Cambridge Tourism Strategy," it said, "is to manage, *not promote*, tourism."

Tourism is just one boom sector in what is a buoyant local economy. In 1994, according to the council strategy, the city received 3.4m tourist visitors – or more than 30 for every resident. In 2001, the numbers are expected to reach 4.2m.

Cambridge's problem, shared by other cities such as Canterbury and Oxford, is that it is too close to London, with improving train and road links bringing it ever closer. In 1994, tourists stayed for an average 1.4 nights, although that was better than the 1991 figure of 1.2 nights.

It is estimated that these visitors spend £195m a year in the city, although all such figures are best guesses. Apart from spending in the city centre shops – around 8 per cent of turnover – and in restaurants, pubs, and cafes, they also generate jobs.

But they do not stay long enough to spend on entertainment, long-stay accommodation, or using the city as the base for touring the region. "We are a whistle-stop venue," says Ian Cooper, the city's director of leisure services. "We are just too near London," says Lydia Bowman, the Cambridge's manager responsible for promoting co-operation on city centre issues. "You can do it in a day – whizz up the M11, have a pizza and sandwicb and go back down again."

But Ms Bowman, and others, believe the city could attract people for longer by raising the profile of its hinterland – East Anglia generally and its coastline – and relieve pressure oo the historic core.

This will not be easy. David Keeble, of the university's Centre for Business Research says: "I am sceptical of attempts to disburse tourists from Cambridge."

> Breaking Cambridge's image as a tourist artefact to be seen briefly will be difficult

For example, Dr Keeble believes the surrounding countryside, especially the Fenland, is "an acquired taste". Attractions such as Ely Cathedral, Anglesea Abbey and the old town of Saffron Walden may not prova strong enougb to make Cambridge a touring centre.

Dr Keeble sees one of Cambridge's problems in the appeal of the colleges which have in themselves become "tourist artefacts", past which thousands troop baving been decanted in the city by coach. The result can be congestion and an undermining of the relaxed academic environment some tourists, and many local inhabitants, enjoy.

Ms Bowman agrees that there is an antagonistic relationship between local people and sight-seeing tourists. "Local people have a very *strong sense of ownership in* Cambridge – everything has to be debated, they feel Cambridge is theirs."

Dr Keeble can see potential for the development in Cambridge of e "tourist experience" development – similar to the Oxford Story, or Jorvik Viking Centre in York – encapsulating the story of the city and give one-day visitors an enjoyable introduction to its past.

He also sees modern architecture as a potential attraction. "There has been a recent growth of a range of distinctive modern architecture – late 1980s and 1990s – such as the Judge Institute and the Law Faculty."

But he puts more hope in the longer-term development of academic and business tourism. He believes a thriving conference sector would visitors for longer stays. The problem bere seems to be investment in facilities and the city's relatively poor touriat accommodation. However, partnerships between the local authority and the private sector heve sought to solve some of the city's problems.

Ms Bowman says there is a shortage of good meeting venues, while those provided by the university are aeasonal. Local authority facilities – such as the 1,800-seat Corn Exchange – also need more investment. And whila the city has good-quality town centre hotels, there is a lack of middle-range, smaller hotels. The centre of the city is also crowded, with little room for development.

The city council has led a successful Welcoma Break Programme, acting as a travel agent in co-operation with hoteliers, and launched a similar co-operative venture to promote conference venues. But breaking Cambridge's image as a tourist artefact to be seen briefly and photographed will be difficult – especially among foreign visitors. In 1994, about 38 per cent of visitors were from the UK. About half the rest were from continental Europe and – the remainder mainly from the US and Japan.

■ The arts: by Midge Gillies

Three distinct audiences

The city has a wide range of entertainment for its students, locals and tourists

Cambridge's three distinct audiences of students, tourists and local people allow it to offer a much wider variety of arts and entertainment than most other cities of its size.

As a result, venues co-ordinate their programmes to avoid duplication and to ensure they meet the needs of a diverse audience.

The more "mainstream" venues are clustered in the historic heart of the city where they can attract visitors. Cambridge Corn Exchange, an example of an arts building which is on the tourist trail, also manages to attract a local audienca, those willing to travel to see the right show, and a smattering of students.

But, as Mr Robert Sanderson, director of Cambridge Corn Exchange, says, a central location can have its disadvantages.

"It's a slight nightmare being a Grada One listed building in the middle of a world heritage centre. Sometimes we dream of a greenfield site on the A14 with free carparking and trees. We're very hemmed in but it's important to keep the city alive at night."

The Corn Exchange was built as a joint agricultural market and concert hall in 1875 and renovated 10 years ago. The building, which is run by Cambridge City Council, attracts a range of performers from pop stars such as David Bowie and The Cure, to The London Symphony Orchestra and the Royal Ballet.

It also bosts raves and stand-up comedy and sells tickets for other venues in the area such as The Junction, which offers entertainment for a young audience, and West Road concert hall which provides classical music.

Top performers have helped to widen the appeal of the Corn Exchange so that 60 per cent of its audience now comes from more than 20 miles away. Shows often attract people from London – particularly if a tour has bypassed the capital or a fan has missed a performance, or simply because road and *rail links are so good from* north London.

"Basically, we know we're not a perfect venue; we are an old Victorian indoor market that's been turned into a modern, multi-purpose entertainments complex," says Mr Anderson.

"It's a matter of attitude – the technical staff really being interested in the difficult sbows like getting the Royal Ballet on, when you have people like Darcey Bussell who are used to the Covent Garden stage, but you've got the orchestra stuck in the corner of the *auditorium and a massive* set on stage."

Cambridge Arts Theatre, which was founded by John Maynard Keynes in 1936 and is situated close to Cambridge Corn Exchange, also does its best to provide a broad programme. The building, which reopens this month after a 3½-year gap for a £8.3m redevelopment partly funded by Lottery cash, has had a long association with the Cambridge Footlights and belped to launch the careers of performers such as Peter Cook, David Frost, John Cleese and Stephen Fry and Emma Thompson.

The Theatre still maintains a tradition, established by Keynes, of bearing any losses incurred by amateur groups from the city and university when staging a performance there.

As well as the Arts Theatre, Cambridge also offers the ADC Theatre which was started by an undergraduate society (the Amateur Dramatic Club) and is now run by the University of Cambridge.

Like the Mumford Theatre, based at Anglia Polytechnic University, it stages both amateur and professional performances.

Most of the university's colleges also put on amateur offerings throughout the year.

Students run their own film clubs and Cambridge's commercial cinemas provide a total of nine screens.

In addition, the Arts Cinema offers a more adventurous programme of foreign and "art house" films and also hosts the film festival which has been going for 20 years.

The visual arts are represented through an equally diverse range of vannes, from the Fitzwilliam Museum which houses masterpieces such as works by Titian, Rubens and Renoir, to the more modern setting and exhibits of Kettles Yard and Cambridge Darkroom Gallery.

But diversity of audience can also lead to tensions between the three groups. One of the reasons the city council is so enthusiastic about arts and leisure is that it recognises the importance of tourism to the local economy.

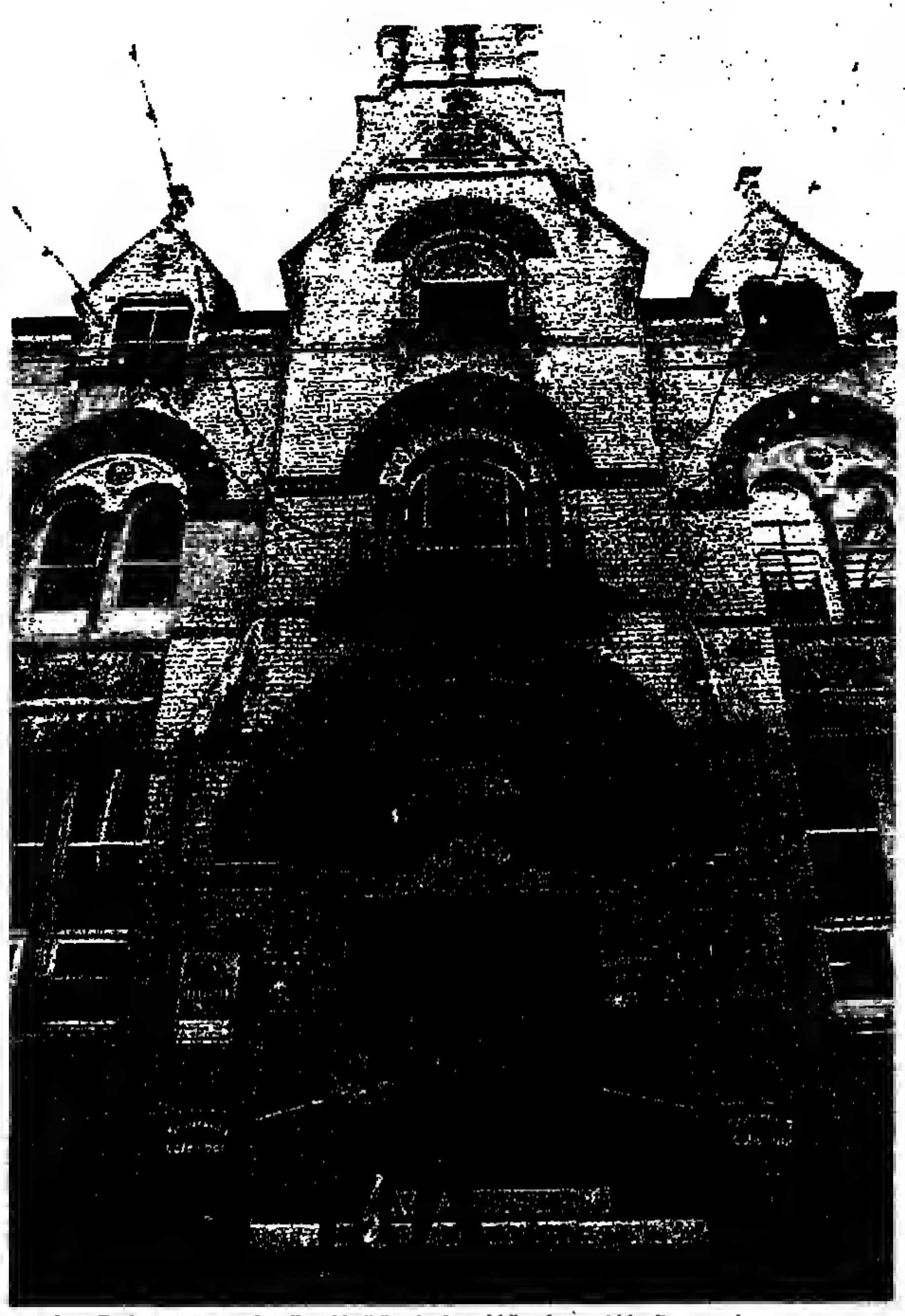
It claims thet the £19 a head it spends annually on arts and leisure is the highest contribution made by a non-metropolitan authority.

However, some local peopla complain that too much attention is paid to the needs of transitory audiences – the students and the visitors.

Mr Sanderson admits that he aims for the widest range of audience, "so there are less people out there wbo don't like what you're doing."

This criticism has been partly answered by establishing regular events such as the Cambridge Folk Festival, whicb was started in 1965. There are plans, too, to host a comedy festival next year which would involve a range of venues from theatres staging stand-up comedy to galleries exhibiting cartoon art.

It looks likely, though, that Cambridge's wide audience will continue to be a boon as well as a bane for some time to come.



The Corn Exchange: Grade One listed building in the middle of a world heritage centre *Ashley Ashwood*

PROFILE The Judge Institute

Getting on with the job

The institute is establishing itself as a business school to be reckoned with

While dons at Oxford University squabble among themselves about whether management education is a academic subject worthy of their attention, and whether they are prepared to accept a donation of £20m from Saudi entrepreneur Mr Wafic Said to fund their studies, Cambridge University has quietly and purposefully got on with the job of setting up a business school.

Just a year ago, it opened the doors on the fabulously restored Addenbrooke's hospital in the heart of Cambridge, designed by the architect John Outram – this is the home of the university's business school.

The conversion was completed with £8m donated by Sir Paul Judge and his wife Anne, in recognition of which the school has taken on the name Judge Institute of Management Studies, and £5m from the Monument Trust, one of the Sainsbury family trusts.

While suspicion and mistrust plague the relationship between Oxford dons and their would-be benefactor, dealing with its benefactors has proven anything but irksome for Professor Sandra Dawson, director of the Judge Institute.

"I see it as good practice on my part to talk to our benefactors. It is a working partnership between us," she says. "We have to relate to the business world out there which is our research institution."

Professorships endowed by Guinness, KPMG and Andersen Consulting are among the school's other corporate links. The institute is also looking for a further donation of £2.5m-£3m to fund a new library.

Sir Paul, former chairman of Premier Brands, is also relaxed about the relationship, describing his role as one of support for the business school.

He also tries to encourage potential donors to give money to the school and is chair of the advisory board, a group of business people who help faculty and students at the school keep in touch with business needs outside the university.

Sir Paul proudly talks of one of his most recent meetings at Cambridge where he was asked to give a talk to the MBA (master of business administration) students.

Like Oxford, Cambridge was late into the business school game, but the Judge Institute is now gradually establishing itself as a business school to be reckoned with on the international stage. It presently runs an MBA course and from 1997 will offer shorter executive courses.

These courses will initially target board members and those one rung below them on the management ladder and will be open courses – where anyone can apply to join – or consortium courses, where course members will come from a handful of non-competing companies.

The longer-term plan is to offer courses for individual companies, says Dr John Hendry, MBA course director at the Judge Institute.

However the path has not always been a smooth one for the institute. Indeed, Dr Hendry has had to alter the structure of the MBA course twice since its inception six years ago.

Dr Hendry freely admits that the problems arose because the institute misjudged market demands.

The initial course, based on ideas of management guru Mr Charles Handy, was for a three-year programme, with students spending one term each year at Cambridge.

"Educationally it was a dream. For employers and students it was a nightmare," says Dr Hendry.

Today's 21-month course consists of six months of study followed by a 12-month work period and finishes off with a series of optional courses and a dissertation.

But that has still proved to be unpopular because, says Dr Hendry, students have to be well supported by their employers. As a result good students are being turned away because their employers are lukewarm in support.

From autumn 1997, as a result, the institute will offer a one-year MBA course, bringing it in line with most British business schools and European schools such as Insead, in Fontainebleau, near Paris.

Indeed, with fewer than 20 per cent of students coming from the UK Dr Hendry classifies the institute as one of Europe's most international schools, alongside Insead, IMD in Lausanne and London Business School.

The largest single national group – 25 per cent *in total* – are from the US.

The one-year MBA programme will run alongside the established 21-month sandwich programme but Dr Hendry predicts that some 75 per cent of students will opt for the 12-month course from its inception.

The institute is also the focus of management research at Cambridge and in July this year received a sizeable donation to help set up a governance study centre, involving Cambridge's existing Centre for Business Research, funded by the Economic and Social Research Council, and other faculties.

Funds for the centre came from Mr Bob Monks, one of the central figures in the US corporate governance movement over the past 15 years.

As well as attending Cambridge himself as a Harvard scholar, Mr Monks cited Cambridge's formidable academic reputation as the main reason for locating the centre at the Judge Institute.

The fabulously restored Addenbrooke's hospital in the heart of Cambridge is the business school's home *Ashley Ashwood*

Della Bradshaw

PROSPECTS FOR PAKISTAN

The political measure of the stabilisation programme is whether it can be made to stick, write **Peter Montagnon** and **Farhan Bokhari**

Interim of uncertainty

A sigb of rellef went up in Pakistan when Ms Benzir Bhutto was ousted as prime minister on November 5. Tbs removal of a democratically-elected laader migbt bave been expected to spark widespread protest. Instead there was a sense of satisfaction at the demise of an autocratic administration which tolerated a level of corruption that shocked even Pakistan.

But her removal has created deep political uncertainty. The caretaker government installed by President Farooq Leghari has been weakened by doubts over the legality of his move to oust her, by his appointment of cronies to ministerial positions and by his failure to lay formal charges nf corruption against Mr Asif Ali Zaradari, Ms Bbntto's investment minister husband, who is being beld in custody.

The bope is that lt will at least bring some prospect of economic stability. Mr Shahid Javed Burki, the World Bank official brought in by President Leghari to run the economy, has set about completing negotiatinns fnr a new dose of short-term International Monetary Fund finance. This week be is in Washington to begin discussions on a longer term structural adjustment loan.

The central question, though, is whetber economic recovery can be sustained if Pakistan does not have a government with the authority to push through tough measures designed to restore confidence and secure Pakistan's ability to service its $28bn foreign debt. The mandate of the caretaker government lasts only till February 3, though many fear it will prove impossible to hold elections on schedule then. Even if they do take place, the result could be a bung parliament and a weak coalition.

Mr Burki, a veteran of World Bank rescue packages for Latin America, says be believes tha package of structural reforms to be announced later this month could transform Pakistan while maintaining a reasonable level of growth. "If we succeed in this experiment it will he the first programme of stabilisation which would not be accompanied by a major recession," he says.

In theory, the programme put forward by Mr Burki and his team of professionals makes perfect sense. It rests on the need to reduce government indebtedness: total foreign and domestic debt amounts to nearly 90 per cant of gross domestic prodnct, imposing a aavere strain nn public finances.

The main elaments are: a reduction in the size of government designed to curb the deficit and reduce tha scope for corruption, accelerated privatisation to create resources to pay off debt; banking reform to rid the system of bad debts totalling over 6 per cent nf gross domestic product; and fiscal and tariff reform aimed at removing distortions and enhancing the government's ability to collect revenue.

The need for such changes is clear. As an example of profligate spending by officials, Mr Burki cites one of Pakistan's four provinces where each minister had 30 cars at his disposal. "And they were expensive ones like Toyota Landcruisers and Pajeros."

Pakistan's state-owned banks are loss-making and like other public enterprises, heavily overmanned and inefficient. The government's tax collection rate is a mere 13 per cent of gross domestic product. Within that, tax collection from agriculture is just 0.5 per cent, so whatever burden there is falls unfairly on industry.

Attempts to tax agriculture, however, have been opposed by politically influential landowners who argua that the government takes away much nf their profits by artificlally depressing the prices of food grains to pacify urban dwellers.

While Pakistan has relatively few quantitative restrictions on imports, its tariffs are higher than other Asian countries with a peak of 65 per cent. That makes inputs expensive and shields domestic industry from competition.

Yet if correcting all these problems is simply a matter of common sense, implementation has already begun to prove difficult. Since the caretaker government entered office government borrowing from the banking sector has continued to grow apace, reaching Rs76bn by the end of November compared with a target of just Rs52bn for the end of December.

No one has yet dared to suggest that defence spending, which takes up a quarter of gross domestic product, should be cut. And though the government has announced strict new measures against corruptinn, it is being slow to follow through with charges.

Nor, given its precarious foreign exchange position, can the government afford to withdraw the anonymity privileges accorded to foreign exchange deposits in Pakistan's banks, a standard vehicle for money laundering. That suggests a long uphill struggle to clean up government and remove tbe bnge waste caused by corruption.

This, analysts say, shows clearly that political reform must go hand-in-hand with economic reform. Mr Fakhr Iman, education minister in the eerlier Pakistan Muslim League government nf Mr Nawaz Sharif, believes there is a deep-seated desire for change in the country's "polluted" political culture.

The ousting of Ms Bhutto provided the opportunity for such a change. "If in the minds of the public, those who are perceived to be corrupt and not clean are brought to trial, lt'll set the tone and the direction for the kind of culture the people are looking for."

So far, there has been little sign of such a development. Instead the political situation has grown murkier, and there have been renewed signs of violence with bomb blasts in both Karachi and Lahore. Last week President Legbari's position was seriously weakened by a supreme court ruling that he had to accept the prime minister's advice on the appointment of judges, one of the main points of contention whicb led to Ms Bhutto's dismissal.

The supreme court has yet to rule on ber complaint that ber dismissal was illegal, but lt seems unlikely that sbe will do well if elections do take place. Her Pakistan People's Party is riven by dissent with some support, particularly in her bome province of Sindh, peeling away to a rival faction led by Mrs Ghinwa Bbutto, widow of her murdered brother and rival Murtaza.

The chances are that Mr Nawaz Sharif would emerge from any election as prime minister. He is popular with business and thought to have belped broker the recent balance of payments loan from the United Arab Emirates that will help bolster the foreign reserves. But, like that of Ms Bhutto, his last administration ended in disgrace. He, too, was dismissed amid allegations that his government was corrupt.

In desperation, some middle-class Pakistanis are beginning to countenance the possibility of a longer period of non-parliamentary technocratic government. Some argue that the constitution would allow for such a move if the programme and the mandate for such a government were approved in a referendum.

Many believe the military, which has been low profile so far, could still intervene to impose such a solution if the situation did get out of hand. But, according to Mr Imam, supporters of such a move are generally people on the outside of politics. What is really needed is a strengthening of democratic institutions with transparency and accountability.

"That's the only way. A non-democratic, non-elected government has been tried before, but with what results?" he says.

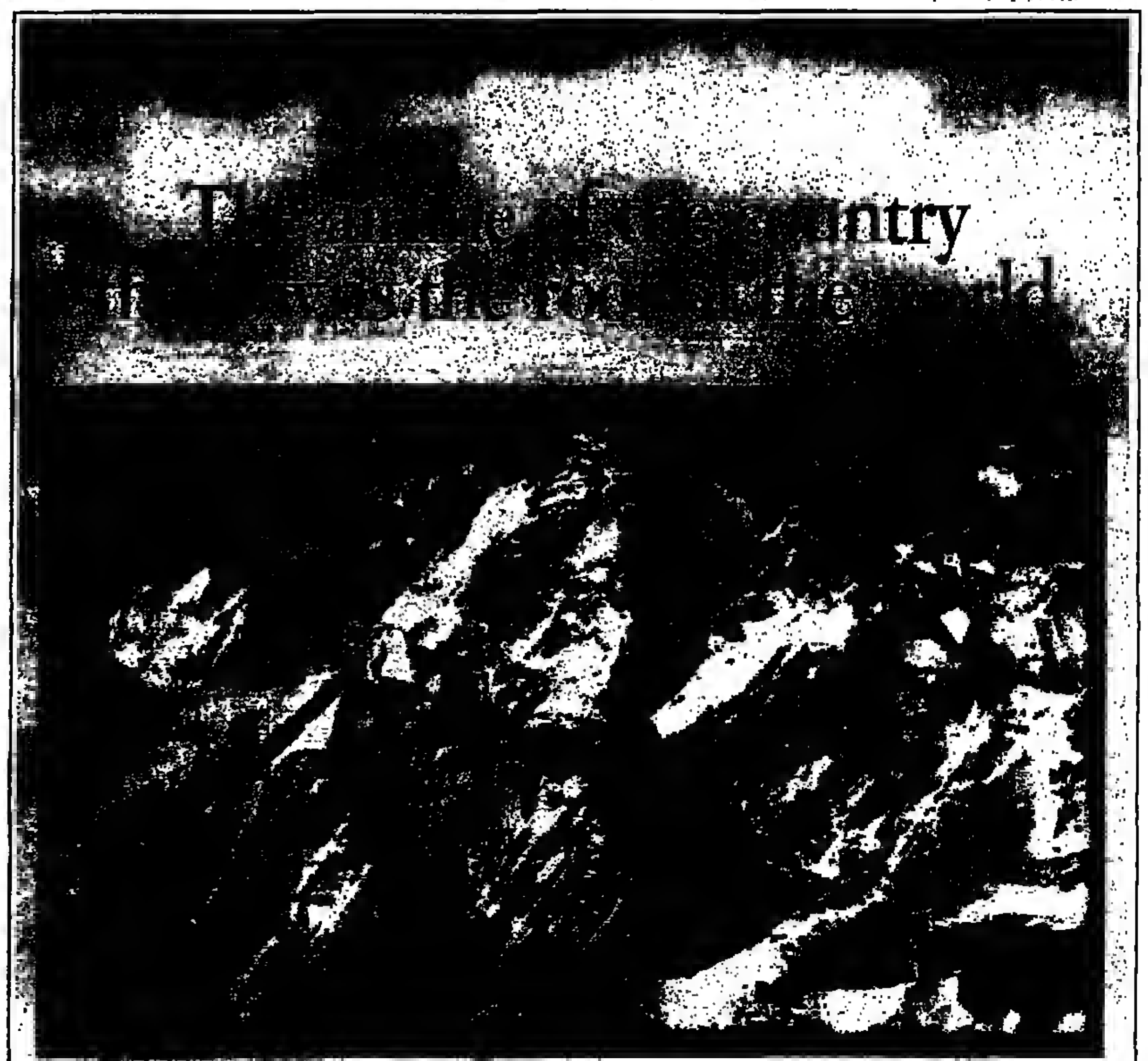
Thus, after the widespread relief which followed Ms Bhutto's dismissal, Pakistan still seems unable to shake off the culture of corruption, croneyism and vindictiveness which have poisoned its political and social prospects for at least a decade.

Pakistanis must look with envy on the Philippines, once an even worse case, but now a democracy whose structural reforms have attracted large investment flows and made it one of the strongest exporters in Asia this year. While Pakistan struggles to implement change, the risk is that the international investment will go elsewhere and its own inflows will be feeble as before.

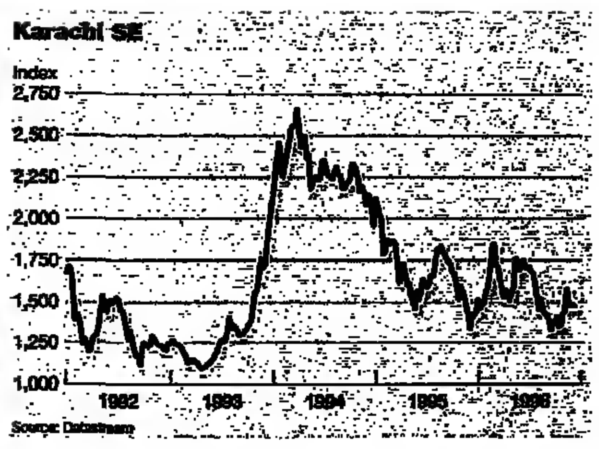
The best it can hope for is that some of the economic reforms proposed by the caretaker government will stick under the continuing supervision of the International Monetary Fund and World Bank and that the situation will gradually become less bad.

And there is always the hope that determination will be born of crisis. "If you are a wise man, then you control events," says Mr Muhammad Yaqub, governor of the State Bank. "If you are not a wise man then events will control you because the realities will dictate the terms. But in the first case there's a danger of being liquidated as a country, society or state. In the second you adjust in a manner which is such that you survive."

New and old livelihoods in Karachi: the mobile phone dealer in the latest hardware; and the daily wage-earner at the cotton loom — Pictures: David Ahmed



Karachi stock exchange: brokers shout and sell — Dawd Ahmed



■ **Stock exchange:** by Farhan Bokhari

The market trails badly

Future prospects depend, above all, on the resolution of political uncertainty

Pakistan's portfolio investors have little to celebrate as the year draws to an unpleasant end. The KSE-100 index of the Karachi stock market, the largest stock exchange, trails almost 20 per cent below last year's final result and less than 40 per cent of the peak in the past three years.

Many investors find themselves strapped for cash, with investments still tied up in shares whose prices have yet to recover. Others are uncomfortable over future prospects. Though Mr Shahid Javed Burki, the government's chief financial adviser, says he expects a resumption of portfolio flows, the large-scale return of foreign investors is still awaited.

Even the recent change of government has not given a boost, in spite of a precedent in 1993 when the market rose after a similar political change. Besides, the two government-supported investment companies – ICP (Investment Corporation of Pakistan) and NIT (National Investment Trust), which have stepped in previously to revive share prices – are now themselves pressed for liquidity.

By contrast, analysts say the fundamental factors look attractive, pointing to a rapid growth in monthly volumes of shares traded, and sustained buying interest in attractive equities such as Hubco, ICI and Pakistan telecom.

On a market price/earnings multiple of 8, Pakistan is cheap compared with other regional markets and some analysts argue that corporate earnings are holding up. Mr Nasir Bukhari of Khadim Ali Shah Bukhari brokerage expects them to grow by 22 per cent this year, with the pace accelerating to 26 per cent next.

But short-term concerns over Pakistan's recent economic trends have dampened prospects of recovery. The projections for the latest year's cotton crop have already been officially lowered by about 12 per cent after a pest attack.

Independent experts say that the damage is larger. Its effect has added to anxieties in the market where almost a quarter of the 748 listed companies represent textiles – the largest export sector.

In spite of a recent package of incentives by the caretaker government of Mr Meraj Khalid, the prime minister, textile shares are still reeling under worries of a fall in expected profits due to higher raw material costs in the local market. "The reality has started settling in that economic factors are not very encouraging," says Mr Farrukh Khan, chief executive of BMA capital management.

Not only are investors still not certain the latest IMF package will work, they are also concerned about the political future ahead of the February 3 elections. If no clear winners emerge on the horizon, the new government may once again be a coalition of different political parties. "The prospect of a coalition government worries many investors because that could mean a repeat of political uncertainty and perhaps another government seeing its term end halfway through," says a foreign banker in Karachi.

Other analysts say that new reforms introduced by Mr Khalid's government may die with the short life span of 90 days of the caretaker administration.

Mr Bukhari says: "The change of government has been a stabilising factor. But ninety days wouldn't make a difference. The government should stay for at least a year." Mr Khalid and president Farooq Leghari are however committed to holding elections on February 3 and to transferring power to an elected government, in line with Pakistan's constitution which gives no more than ninety days to caretaker administrations.

Future prospects also depend on the development of instruments such as mutual funds and the course of the privatisation programme, which should add both to market liquidity and to the range of shares on offer. The growth of mutual funds has been deterred by regulatory and tax issues. For instance, not only are investors taxed directly on their income from mutual funds, but the funds are also themselves taxed separately, so there have been complaints about double taxation. Pakistan's caretaker government has promised reforms but the likely impact on share prices is still unclear.

Many investors are also eagerly watching new privatisation offers planned for the next twelve months. The government says that it plans to offer global depositary receipts (GDRs) and shares in public sector corporations worth $1bn. But opinion is divided over the market's ability to absorb the new paper.

Investors are certain to be attracted to some of the more profitable companies like OGDC (Oil and Gas Development Corporation), but response to other planned flotations like those of the deeply indebted and inefficient banks will depend on efforts to clean up non-performing loans.

One good sign is technical improvements in the offing to facilitate trading. Shortly before its downfall, the Bhutto government approved new laws to establish a central depository system (CDS) as part of an ambitious modernisation plan. Once operational, the $3.5m CDS is expected to expedite the physical transfer of shares. The KSE's management is also working towards computerised trading which it hopes will start functioning by next summer.

"With these new systems (CDS and computerised trading) our stockbrokers will be able to set up branches all over the country, their retail business will increase rapidly," says Mr Bukhari, who has begun expanding his business outside Karachi in expectation of more clients.

The KSE management says that these new changes will boost interest in the market from early next year. Expectations that the caretaker government may offer some tax relief on share ownership has also recently helped support prices.

But there is no real conviction that any rally would last. "The improvement, if any, is temporary. People want to see the fog clearing up over the long-term horizon before returning to the market in a big way," says one sceptical broker.

■ **Banking sector:** by Peter Montagnon

A struggle with bad loans

Recovery of fortunes rests with the results of the Resolution Trust's activities

Pakistan's banking problems may never have attracted the attention meted out to Japan's *jusen* or housing loan companies, but the impact of bad loans on the *country's financial system is* almost equally dramatic.

According to Mr Shahid Javad Burki, financial adviser to the caretaker government, the country's commercial banks are struggling with bad debts totalling around Rs140bn, equivalent to over 6 per cent of gross domestic product.

Most of the bad loans are concentrated in the state-owned banks, most relate to loan losses in the textile sector, and many of the borrowers have long enjoyed political clout which protects them from having to repay.

"Dealing with bad debts is probably one of the most critical elements of financial sector restructuring," says Mr Zakir Mahmood, general manager for Pakistan of Banque Indosuez.

The problem has become a priority for the caretaker government. It is negotiating a large loan from the World Bank and other official lenders to finance a plan to take the bad debts off the books of the state banks and place them in a special company, called the Resolution Trust. The trust would then be responsible for recovering as much cash as it can.

The weight of bad debts stymied efforts by the Bhutto government to privatise United Bank, one of the country's leading state-owned banks.

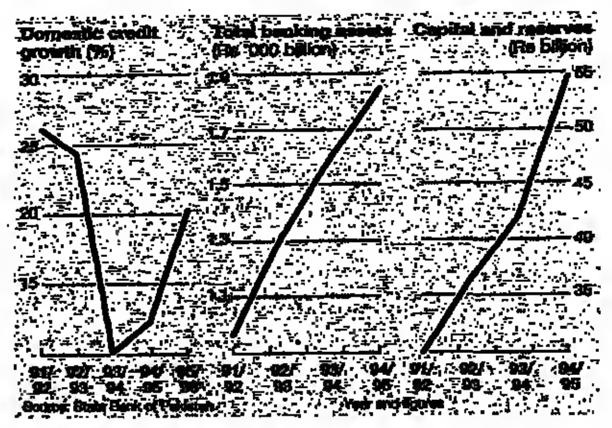
It is an obstacle to the introduction of more efficient management practices and is forcing the banks to charge much higher interest rates than would otherwise be the case.

The caretaker government moved quickly in its early weeks to change the management of state sector banks.

It is introducing a new foreclosure law which will make it easier to attach assets of defaulters. According to Mr Burki, it plans to set up the Resolution Trust early next year to pave the way for speedy privatisation of the state banks.

Following the pattern set in other countries – including the US when it was forced to tackle the crisis in the savings and loan industry in the 1980s – the Resolution Trust would be financed by deep discount bonds bearing a government guarantee.

It would attempt to recover some of the debts by auctioning off the bad loans. Buyers would be investors aiming to make a profit by collecting the debt or developing some of the assets



attached to it. Typically they might include local or foreign investors hoping to acquire a textile mill whose original owner ended up in default.

But estimates vary as to how much of the bad debt can be recovered. Mr Burki reckons the total might be around a third of the bad debts.

One uncertainty is how much of the accumulated bad debt consists of interest payments which will never be recovered, says Mr Azhar Hamid of ANZ Grindlays. That could amount to around 30 per cent of the total. "Then I think they'll be lucky if they recover 50 per cent of the principal."

And while most bankers accept that the idea is sound in principle, many remain cautious in practice. "As usual in this country, the biggest issue remains implementation and execution," says Mr Ali Raza, senior vice-president of Bank of America. "The Resolution Trust will fall flat on its face unless the foreclosure laws are simultaneously in place. People must be confident that the law works and can be operated by the new government."

Another concern is how the government will run the Resolution Trust. "It will have to be managed as a result-orientated private sector enterprise. The personalities who are chosen to run it will be very important," says Mr Atif Bajwa, country manager of ABN-Amro Bank. Even with a government guarantee the bonds needed to finance the Resolution Trust may be difficult to sell to the public, he adds.

According to Mr Muhammad Yaqub, the widely-respected governor of the State Bank of Pakistan, the scheme will only work if it is preceded by efforts to stop new bad loans being put on to bank books. The Resolution Trust addresses the problem of the stock of bad loans but not the flow. "If you address the stock problem, it creates more room for people to play," he says. "My concern is that the problem should be addressed only after the flow is taken care of."

Among the conditions for sounder banking is a clear understanding that the state bank has a sole mandate for banking supervision and control, says the chief of the central bank.

This means building barriers to prevent patronage and political influence on the banking system by the finance ministry and prime minister's office. "Lower level functionaries in the ministry of finance have a vital interest not to see these walls created," he says. The powers of the central bank should be enhanced so that it would be able to replace top executives at banks.

It should also be the sole authority responsible for licensing banks. At the same time, the bank intends to build up a new team of trained supervisors and invest in information technology to beef up its supervisory role, he says.

It also plans gradually to impose tighter capital adequacy rules on banks, moving away from the present scheme whereby capital is calculated as a proportion of liabilities to Bank for International Settlements rules whereby banks are required to have capital equivalent to at least 8 per cent of risk-weighted assets.

Though the foreign banks, which collectively account for some 20 per cent of all bank lending in Pakistan, derive some advantage from their relative health compared with the debt-ridden state banks, many believe the industry generally would benefit if the bad debts were dealt with.

The economy as a whole is weakened by the problem, says Mr Mahmood of Banque Indosuez. The state-owned banks also need to deal with their bad debts so they can turn their attention to improved efficiency. "There's an enormous amount of waste, overstaffing and bloated expenses," he says.

But there are few illusions about a speedy solution. The size of the debt which has to be collected is large, the money has to come from somewhere, and if attempts were made to collect it too quickly there would be an effect on the general economy, says Mr Mr Farrukh Khan, chief executive of BMA Capital Management. The process has to be spun out over considerable time.

■ **Privatisation:** by Farham Bokhari

Sitting on a pressing deadline

Delays and lack of transparency have been only two of the main obstacles

Few people will envy Mr Salman Shah, the business professor, now chairman of the privatisation commission in Pakistan's caretaker government. In the remaining six weeks before elections he must try to remove obstacles that have dogged the sell-off programme for almost five years.

He is now faced with the challenge of removing the obstacles to privatisation that have hampered the programme for almost five years. In spite of new economic reforms, Pakistan still has to demonstrate that it can attract a large number of buyers, willing to offer attractive prices and to take over management of public sector companies.

Mr Shah's job is doubly difficult because the programme has become tainted by the lack of transparency in previous deals. He has started by promising to revamp the privatisation commission and establish new rules. The search has begun for new talent from Pakistan and abroad so that a core team of experienced officials is appointed.

"The key issue is to have the best people possible in the privatisation commission," Mr Shah says. "The problems of transparency will disappear with better technical expertise".

Mr Shah has also promised to bring to the head of the queue those companies and assets that were ignored in the past. These include Pakistan's largest airport – the Jinnah terminal in Karachi – sea-ports and public sector development finance institutions.

He has also promised to expedite the sale of companies such as the Pakistan Telecommunications Corp (PTCL), power generation plants and power distribution boards.

Many analysts are, however, sceptical about Mr Shah's plans to make a quick turn around.

The legacy of delays and the lack of transparency surrounding large asset sales, especially the PTCL, have made investors cautious.

Pakistan has so far only sold 11 per cent of PTCL's shares through domestic share offers and international GDRs, while the search is still on for a strategic investor who would buy another 26 per cent shares and take over its management.

Plans to sell the country's two largest state-owned banks, Habib Bank and United Bank, have also suffered. There are virtually no buyers for the two deeply-indebted banks that the government now wants to revitalise if it can succeed in getting loans from the World Bank for restructuring.

Many analysts also refer to the case of a former reformist government of caretaker prime minister Mr Moeen Qureshi in 1993. That government also launched ambitious plans to reform the economy and secure a faster push towards privatisation. But those plans quickly lost momentum, shortly after it left office at the end of its 90-day tenure.

The new government appointed by President Farooq Leghari, whose own term lasts until 1998, has promised to safeguard the reforms.

But that assurance has not helped to stem confusion in business circles over the extent to which the president can become involved. Pakistan's constitution gives few powers to the president for day-to-day implementation of policies in spite of strong authority to remove elected governments.

Many analysts also see a danger in trying to push too many offers simultaneously, especially without assurances that there will be enough buyers to put in bids. Mr Farrukh Khan, chief executive of Karachi's BMA capital management, says: "If you try to accelerate too much, the chances of falling flat on your face are going to be high."

Other businessmen say the government needs first to trim the country's bloated bureaucracy before it can make progress on privatisation.

"There's going to be resistance from bureaucrats, who have wielded enormous powers, thanks to their senior executive positions at public sector companies," says a foreign banker in Karachi.

By some estimates, the size of the federal government in Islamabad can be reduced by a third or half, without affecting the delivery of public services or the performance of the government. Yet successive governments have not even begun to tackle the issue.

Businessmen say that the large size of the bureaucracy allows it to hold back the sale of important public sector companies.

Pakistan's economic planners are, however, under pressure to step up the pace of privatisation so that the money earned from transactions could be used to pay off a portion of the country's increasing debt and reduce the annual debt servicing burden.

"The message from the World Bank, the IMF and all of Pakistan's western donors is to privatise, and pay off some of the debt before it becomes too unmanageable," says a senior Western economist in Islamabad.

Faced with a time constraint, all Mr Shah can do is to lay the [illegible]ound and hope that a p[illegible]ing start will be made before his tenure ends. His hopes to leave behind "a strengthened privatisation system with people of integrit[illegible]nning it and to leave a [illegible] which can then conti[illegible]

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■ **Economy:** by Peter Montagnon

Putting together the pieces

Pakistan badly needs fiscal reform, if it is to gain foreign confidence

Ms Benazir Bhutto, Pakistan's ousted prime minister, clearly believes it when she claims the economic record of her administration was one of "phenomenal success."

A growth rate, which even after this year's severe austarity measures is still expected to be around 5 per cent, and a decline in the fiscal deficit during her period in office to 6.3 per cent from 9.6 per cent may appear to vindicate this.

But in boasting that, at one stage, she had tripled the country's foreign exchange reserves to some $3bn, she readily overlooks the fact that, when she was removed, they were down to around $597m or less than three weeks of imports. Pakistan was in a severe economic crisis, brought about by the government's inability to manage and control its own indebtedess.

Privately officials admit that the country cama close to defaulting on its $28bn foreign debt as reserves dwindled this autumn. With a large bunching of short-term maturities, Pakistan had an awesome debt service ratio of some 52 per cent in the fiscal year to last July. The Pakistan government also has a large domestic debt of Rs909bn.

Some experts argue that Pakistan should stop pretending it can cope and actively seek to reschedule its debts. Trying to find ways of continuing to service it "is like giving a patient antibiotics for a viral infection," says Mr Nessar Ahmed, President of the Cresbank investment bank.

But the caretaker government has set its sights firmly against rescheduling because of its devastating effect on confidence. A rescheduling would also be complicated by the foreign currency deposits in local banks, amounting to some $8bn and which are not counted in the official debt figures.

Instead the government aims to put the country's finances on a more sustainable footing by reducing the budget deficit, seeking to boost exports, paying down debt through the proceeds of an accelerated privatisation programme and encouraging foreign direct investment.

Even before Ms Bhutto's downfall, the need for fiscal reform was clear. Spending was hard to control because well over half of it went on defence and interest payments. The large deficit was crowding out private sector investment, and with Pakistan's low savings rate of 14 per cent, the strain was showing in the balance of payments. Even on the official numbers, inflation was stuck around 10 per cent.

Her original budget in June called for a tax increase of Rs41bn, largely through an extension of the sales tax on goods and services to all imported and manufactured goods except sugar, edible oil, petroleum products, unprocessed foodstuffs and agriculture products. This met widespread opposition. It became apparent that the government could not collect the money. Hence it would miss the target of 4 per cent for the deficit and the IMF halted drawings on a $600m standby loan agreed last December.

With reserves plunging as a result, the government began urgent negotiations with the IMF for a new standby. Shortly before her dismissal Ms Bhutto cama up with a new package. This included an 8 per cent devaluation of the rupee, higher interest rates, credit curbs on public sector enterprises and budget measures amounting to Rs40bn. It forms the basis of the short term economic policy of the caretaker government.

For once, the new budget measures focused more on spending cuts than increased taxes. These were scheduled

Economic Indicators

	1991/2	1992/3	1993/4	1994/5	1995/6
Real GDP growth %	7.7	2.3	4.5	4.4	6.1
Consumer price inflation %	10.6	9.7	12.9	13.6	10.0
Fiscal deficit % GDP	7.4	8.0	5.8	5.6	6.3
Current account balance % GDP	-1.9	-6.4	-3.2	-3.6	-6.5
Liquid foreign exchange reserves ($m at year-end)	1,012	461	2,305	2,737	2,056
Foreign debt ($bn at year-end)	19.68	22.04	24.48	27.07	28.80

Source: State Bank of Pakistan

to amount to Rs27bn. Defence was not cut directly, though the absence of compensation for the devalnation meant a real cut as the military can afford less imported equipment. The main cuts cama from less essential development spending and cuts in recurrent spending by the elimination of waste.

Of the new tax measures the most striking was a first ever tax on agriculture, designed to raise Rs2bn. The agriculture tax will be collected by the provinces who will receive smaller transfers from the central government as a result. The basic structure of the unpopular sales tax was left unchanged though medicines and newspapers were exempted.

Though the package has been approved by the IMF, which was doe to release $160m to Pakistan this month, the jury is still out on how effective it will be. The early weeks of the caretaker government have seen a continued growth in government borrowing from the banking sector. These totalled Rs76bn at the end of November compared with a target of Rs82bn for December and Rs44bn for the end of the fiscal year. That suggests that the government continues to have difficulty collecting revenue.

To cut the deficit from 6.3 per cent of GDP to 4 per cent involves a major tightening. Together, this year's budget packages have an annual impact of Rs100bn or 4 per cent of GDP. Even if the target is missed by a wide measure, the fiscal tightening should be considerable.

Less clear is whether the government will manage to avoid an impact on growth. Some industrial sectors such as cement are showing signs of weakness. In others, the measures have led to a sharp increase in costs. Mr Ian Sangster, chairman of Lever Brothers Pakistan says his company's costs have risen by Rs1.1bn, equivalent to some 10 per cent of turnover. Prices have risen as a result.

Nor has there been compensation in the form of good news from agriculture. The cotton crop, a crucial factor in economic growth, has proved disappointing with the likely outturn now put at around 2m bales below the government's original forecast of 10.5m bales.

There are also donbts about how far the devaluation will improve Pakistan's trade balance. Though the trade deficit in the first quarter of the current fiscal year was $765m, down from $900m in the same period of last year, it is still large. Exports showed a 17 per cent increase in the first quarter.

Much of the devaluation was a lagged response to the high inflation in Pakistan. "We were simply trying to maintain the real effective exchange rate," says Mr Muhammad Yaqub, governor of the State Bank. "Exchange rate adjustment is a necessary but not a sufficient condition for higher exports. You also need more investment and more efficiency."

Pakistan has to increase its exports to pay for an oil bill that will reach some $4bn by the year 2000 compared with $1.5bn last year. Too many of its exports are still textile-related, and there is too little value-added in manufacturing. "Pakistan competes only on price, not quality," says Ms Fatma Shah of HSBC James Capel.

Mr Yaqub warns that Pakistan must reduce its current account deficit from around 6 per cent of GDP to around 1-2 per cent because the flows of concessionary aid that used to finance it have dwindled. Eventually Pakistan will need to run a surplus as borrowings have to be repaid. "The need for a substantial expansion of exports and containment of imports is massive, but it has to be planned over a long period," he says.

■ **Telecommunications sell-off:** by Farhan Bokhari

Less solid than it looks

The image problem has meant that large foreign investors have stayed away

The future of the Pakistan Telecommunications Corp (PTCL), the state monopoly telephone company, looks uncertain.

More than five years after a government decision to privatise the PTCL, Islamabad is still faced with the challenge of selling what many consider to be the flagship of the public sector.

The delay has been the result of a range of factors. It has proved difficult to find a large international company willing to link up with PTCL through taking a stake. There have also been concerns over the implications for national security.

Under pressure from the country's defence services, Pakistan has agreed to use some of the proceeds from the sala of PTCL to set up a separate telephone service for the use of government and defence forces.

But the government has still not found an investor to put up at least $2bn for that strategic 26 per cent stake. That buyer would also take over PTCL's management.

The sale of the stake would be Pakistan's largest single privatisation after 12 per cent of the company was floated on domestic and international markets two years ago. But the controversy surrounding that sale is part of the problem with the new one. Documents accompanying the flotation overstated the number of lines in operation, claiming that there were 2.4m clients when there were in fact only 1.8m.

Pakistan claims that it was an unintentional "oversight", but many analysts say that the confusion continues to worry prospective buyers. One Western businessman in Islamabad says: "Pakistan has got a bit of an international image problem. For businessmen, its once bitten, twice shy."

But Mr Salman Shah, the newly-appointed chairman of Pakistan's privatisation commission, is convinced that the company can still attract reasonable competition from buyers. He quotes an internal study by the World Bank which suggests that there is interest among American companies in buying the PTCL.

The privatisation commission said in September that a new consortium consisting of two international operators and a Pakistani company were considering an offer. They are the Stedco group of Indonesia and PTT Telecom Netherlands, who have joined hands with Pakistan's Shaheen foundation, a business venture established by the air force. The Shaheen foundation has announced that the consortium was considering making an offer of up to $2bn for 26 per cent of the company's shares.

The government is convinced that prospects for future growth in the telecommunications sector in Pakistan remain attractive. PTCL, with roughly 2.5m subscribers at present, still has a further capacity to connect another 650,000 users without any large new investment. Average per caput telephone connections at 1.76 per 100 is expected to rise considerably.

PTCL announced in July that its annual revenues for the last financial year (July 1995-Juna 1996) had risan over the target of Rs35bn, but did not say by what per cent. The company has set a revenue target of Rs44bn for the current financial year (July 1996-June 1997), a rise of 25 per cent over the previous year. Even though details of the company's pre-tax profits for the last fiscal year have still not been made public, analysts predict that it would be about 7-12 per cent above the profits of Rs16.835bn for the year before (1994-95).

Particularly striking is PTCL's pre-tax margin of almost 40 per cent. This is at least in part the result of high domestic telephona tariffs in Pakistan.

The government has promised to provide the same degree of monopoly to the PTCL's new buyer, at least for some time after privatisation. The contract of sale for the 26 per cent stock would inclnde a clause giving a seven-year monopoly over basic telephone services in Pakistan. The new buyer would receiva a 25-year renewable licence for providing the full range of telephone services.

■ **Foreign investment:** by Mark Nicholson

A tale of constant vagaries

The pattern of a small number of new investments in large projects needs broadening

Even before November's political upheaval added to the political vagaries of doing business in Pakistan, foreign investors were already treating the country with some circumspection.

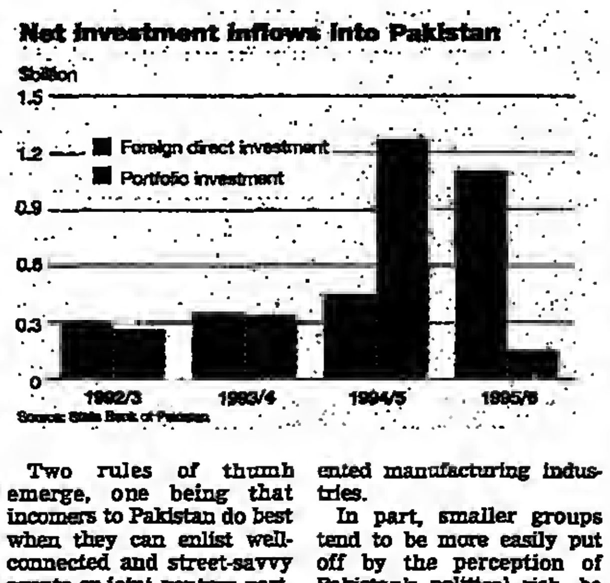
A month before the dismissal of Ms Benazir Bhutto's government, leaders of the Overseas Investors Chamber of Commerce and Industry, the chief representative body of foreign investors in Pakistan, had visited ber husband, Mr Asif Ali Zardari, then investments minister, with a list of long-held woes and grievances. They ranged from concerns over high duty rates, smuggling and brand name protection to worries over restrictive labour laws and constant changes in policies.

The list did not include corruption, though this is also a longstanding complaint of incoming investors. Pakistan last year was rated the world's second most corrupt country, after Nigeria, by the German-based group Transparency International.

Citing examples of problems which the OICCI said were proving detrimental to their and other foreign investors' interests in the country, the body argued that the best way of attracting new foreign investors was adequately to reward those already in Pakistan – something they argued was not always the case.

Established foreign companies in Pakistan may, however, have some interest in sustaining the perception that Pakistan is "difficult". "ICI, Lever Brothers, Procter & Gamble, ANZ bank have all been around for the best part of 100 years – it can make the barriers to entry very difficult for others," says one senior foreign banker in Karachi.

Yet, many investors would agree that Pakistan can be an awkward place to do business. "Companies with external shareholders might be a little reluctant to come into Pakistan, where you have to do business in an unusual way, which may not reflect practice elsewhere," adds the foreign banker.



Source: State Bank of Pakistan

Two rules of thumb emerge, one being that incomers to Pakistan do best when they can enlist well-connected and street-savvy agents or joint venture partners. The other rule appears to be that bigger companies which can command some international clout are more likely to succeed in breaching the formal and informal impediments to dealing in Pakistan. A look at the bigger recent investments bears this out. These have either been from powerful multinational entrants, like Toyota or Honda in the vehicle sector, or from long-established groups like ICI, which is to invest $450m in a new plant for PTA – the raw material for both PET, the polyester plastic used to make bottles and for polyester fabrics – and a further $100m in a fibres plant over the next two years.

Moreover, while gross foreign direct investment figures are currently showing healthy growth, up 146 per cent in 1995-96 to $1.09bn, the rising total masks the fact that the bulk of new flows are in a relatively small number of very big projects – a trend which appears likely to continue.

Most of last year's rise in inflows is accounted for by capital for the construction of the $1.6bn Hubco power plant nearing complation along the coast from Karachi. The likelihood of FDI flows rising beyond $1.5-$2bn a year for the next few years will, by the same token, reflect largely the planned ICI investments and a total of $3.6bn to be invested in 17-19 new power projects. These are the result of the success of both Hubco and the raft of ironclad government guarantees offered under its subsequant two-year-old private power policy.

Elsewhere, the picture is far less encouraging. Most notably, there is an absence both of widespread interest from smaller foreign investors and of significant investments into export-oriented manufacturing industries.

In part, smaller groups tend to be more easily put off by the perception of Pakistan's political risk, be it last year'a bloodletting in Karachi or merely the recurreot political crises which have led to seven changes of government in the past eight years.

Moreover, while Pakistan's population of 130m offers an appealing enough market, for companies considering a single south Asian sortie, India offers a quite dwarfing population of 950m people. "Altogether," concedes one foreign banker reflectively, "It can seem difficult to say what is attractive abont Pakistan for the investor."

Henca the list of grievances from tha OICCI. The core of their concern is that industry and manufacturing are too heavily taxed, and that the tax regime is too frequently changed by governments scraping to find revenues to meet their chronically poor fiscal position.

This bias of taxation derives from Pakistan's political structure, in which the governing elite is largely landowning and agriculturally-based and therefore strongly resistant to spreading the burden of taxation away from urban and industrial taxpayers.

The consequence, as the OICCI suggests, is that duties in some industries, lika tobacco or toiletries, now mean it is cheaper to import prodncts than produce them locally. Or, that import duty rates for capital imports in industries like power and energy have been raised, reduced, then raised again such as to make a lottery of revenue or investment planning.

Much as investors have welcomed the economic rescue-plan of of Mr Shahid Javed Burki, the de facto finance minister in the interim administration, his arrival signals yet more changes to the country's economic regime.

■ **Business guide:** by Farhan Bokhari

Out with the VVIPs

Visitors need to respect the local economic and social environment

A few tips:

● VIP: Many ordinary Pakistanis share a sense of *extreme disgust* with the commonly dreaded VIPs or very important persons. In the recent past, government miniaters, MPs, senior bureaucrats, police officials, high-ranking military officers, *and relatives of people* in many of these categories came under the VIP class. Special VIP perks meant exclusive passage through VIP lounges at airports, jumping queues and privileged access to other VIPs. Over tha years, so many VIPs acquired this title that a further exclusive category – VVIP (very, very important person) has been coined for the president and the prime minister.

The government of Mr Meraj Khalid has taken the first step towards ridding the country of the VIP culture, with the decision to close down VIP lounges at airports, though not regular *first-class lounges*. The state-run PIA (Pakistan International Airlines) has also stopped the block-booking of flight seats for VIPs making it relatively easier to get bookings on domestic flights at *short notice*.

But these new measures may only be a temporary first step, especially if one of the two mainstream political parties with a track record of promoting VIPs, returns *to office*. Remember, *rubbing* shoulders with VIPs often is an important first step to entering the corridors of power.

A word of caution: some of the most prominent VIPs from the former Bhutto government are now under investigation on graft related charges. Make certain that your VIP contact is not behind bars, before you begin to throw the name around.

● Pakistan is a Moslem country where Islam and politics is a key issue for the small number of Islamic activists and religious political parties. Visitors are therefore expected to dress and act accordingly in public, though religious constraints are often relaxed in private.

Alcohol is banned by law but drinking does take place in the privacy of homes. An *exception is* made in *hotels* where special permits have to be sought by non-Moslem guests to purchase alcohol which can only be consumed in their rooms. Non-Moslem guests have to sign an *undertaking which says that* they must not offer alcohol to Moslems.

● Communications: E-mail connections are the emerging new facility for businesses and private users. Pakistan'a *state-run* Pakistan Telecommunications Corporation has launched an on-line internet aervice but subscribers have to be based in Pakistan. *Maka* sure that your host in Pakistan bas an on-line connection which you can use once you are in the country.

Connections however can be unreliable with frequent line drops. The worst quality of service is found in the city of Lahore where users are far in excess of available lines. But the lines out of Islamabad and Karachi are relatively more reliable.

Recent improvements in telecommunications have also made it easier to place *an international call* from hotel rooms though rates inclusive of operator handling charges are far higher than those charged through public call offices where long queues are not unusual. While in Lahore, Islamabad and Peshawar, consider renting a mobile telephone to cut costs. In Karachi, mobile phones have been banned since the violence peaked last July. Nobody knows *exactly when the service will* be restored.

● Health hazards are similar to those in many other Asian countries. Consult your doctor before arriving, to find out if you need inoculation. *As a general rule*, try to avoid tap water, salads and ice cubes. Bottled mineral water can be found in many large stores as well as refrigerators in hotel rooms, which are generally considered safe for drinking.

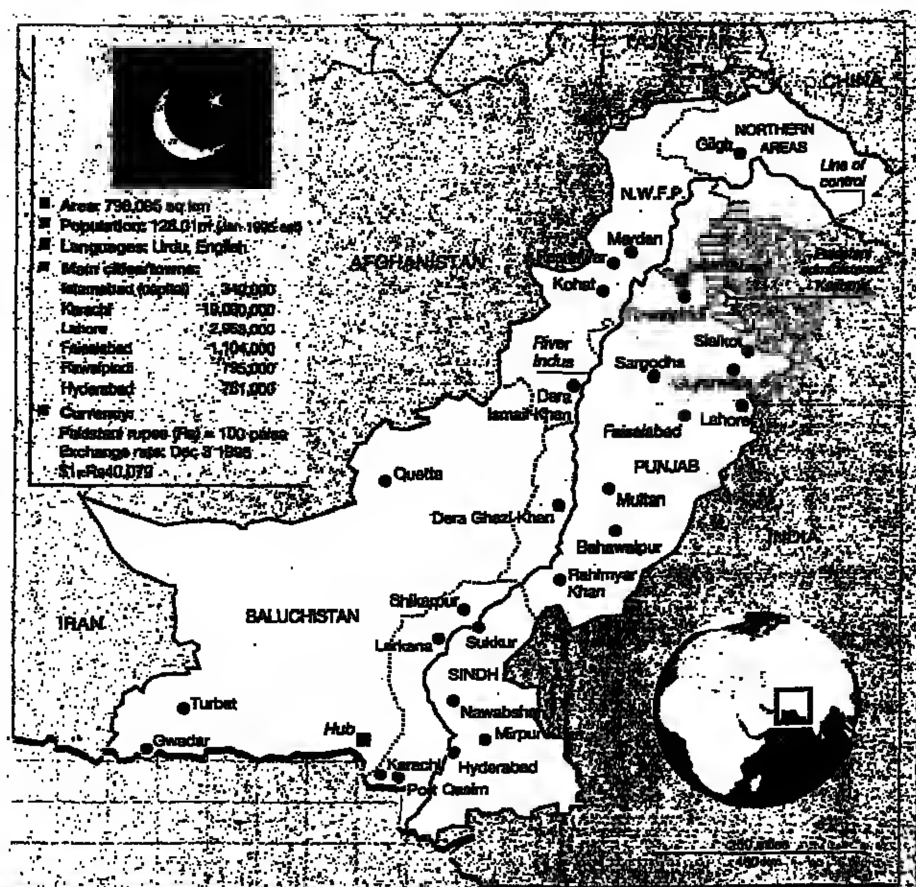
● The *Meraj Khalid* government has promised to step up the pace of the privatisation programme. This is a continuation of Pakistan's five-year-old economic reforms.

Government sanction letters are no longer needed for setting up new projects. Banking reform has allowed residents to open freely foreign exchange accounts and remit any quantity of money *to and from Pakistan*. Prospective investors in industry are, however, advised to have a close check on the state of the infrastructure around their preferred site. The caretaker government's decision to make large *cuts* in expenditure are certain to hit important infrastructure development projects.

● Pakistan offers some of the world's most attractive acenery, especially in its northern halt along the Himalayas. The state-run PTDC (Pakistan Tourism Davelopment Corporation) may offer some useful information on where to go but it has dona little to develop new facilities in recent years to accommodate tourists. Visitors to Islamabad can take a flight to Gilgit for onward travel by jeep to Hunza and the Khunjerah pass – the last frontier post along the Chinese border.

However, if you are pressed for time, a car ride to the nearby town of Bhurban in the Murree hills is advised where the Pearl Continental hotel attracts many travellers. A day trip to the *nearby town of Taxila is also* recommended, where ruins of the ancient Indus valley civilization offer a unique perspective on the history of the South Asian region.

Travellers to Lahore in the Punjab *should take time to* visit the city's famous historical sites such as the Badshahi mosque, tomb of emperor Jehangir and empress Nur Jehan. Lahore is Pakistan's most famous political city with outrageous but interesting gossip on the state of the country's politics and economy.



Economic summary

	1996(f)	1997(f)
Total GDP, nominal ($ bn)	65.2	70.1
Real GDP growth (annual % change)	4.6	5.0
GDP per head ($)	489	512
Inflation (annual % change in CPI)	12.0	12.0
Industrial output (annual % change)	5.0	4.8
Agricultural production (annual % change)	6.7	5.8
Money supply, M2 (annual % change)	17.0	17.4
Foreign exchange reserves ($bn)	2.3	2.75
Tourism & other for. exchange receipts ($bn)	1.65	1.61
External debt ($bn)	35.82	39.17
External debt/head ($)	269	286
Debt service (% of exports)	36.1	36.8
Current account balance ($bn)	-5.54	-6.24
Merchandise exports ($bn)	8.54	9.4
Merchandise imports ($bn)	-12.38	-13.48
Trade balance ($bn)	-3.84	-4.08

Main trading partners (Share of total trade to world, 1995)

Exports		Imports
15.0%	US	9.2%
7.6%	Hong Kong	n.a.
6.8%	UK	n.a.
5.7%	Japan	10.7%
5.4%	Germany	6.2%

(f) forecast

Government and constitution

■ **Head of state**
President Farooq Leghari.

■ **Head of government**
Prime minister & minister of finance Meraj Khalid.

■ **The executive**
The president is head of state and is elected for a period of five years by a joint sitting of the federal legislature.

■ **National legislature**
Bicameral legislature; the lower house, the National Assembly, has 217 directly elected members who serve for five years, of whom 10 represent minorities; the upper house, the Senate, has 87 members elected for six years with one-third retiring every two years; each of the four provinces elects 19 senators, the remaining 11 are elected from the Federal Capital Territory and the tribal areas.

■ **Provincial government**
Pakistan has four provinces which enjoy considerable autonomy; each province has a governor and a Council of Ministers headed by a chief minister elected by a provincial assembly.

■ **National government**
After the election on October 6 1993, the PPP, backed by a coalition of small parties and independents, formed the national government, with Benazir Bhutto as prime minister. Her government was dismissed by Mr Leghari on November 5 1996. An interim government was appointed under the leadership of Meraj Khalid.

■ **Main political organisations**
Pakistan People's Party (PPP); Pakistan Muslim League (Nawaz) (PML(N)); Pakistan Muslim League (Chattha) (PML(J)); Jamaat-i-Islami (JI); Mohajir Qaumi Movement (MQM); Awami National Party (ANP); Jamiat-e-Ulema-e-Islam (JUI); Tehrik-i-Insaf (Movement for Justice).

■ **National elections**
October 6 1993 (National Assembly); next elections due February 3 1997 (scheduled); November 13 1998 (presidential).

Sources: EIU Country Report; World of Information

■ **Energy:** by Mark Nicholson

Power and some of the glory

The hugely successful drive to increase capacity could yet have a downside

It took more than a decade from conception to execution, some unprecedented World Bank political risk guarantees and a net of tightly interlocking and hedged transaction agreements, but the first and biggest private power station in South Asia is up, running and set to be fully commissioned by March next year – a month early.

Hubco, the $1.6bn power plant operated by National Power, the UK power group, synchronised the third of its four 323MW units with the Pakistan grid this month after the first two began delivering power this summer. The final unit, lifting output to 1292MW, will leave Hubco providing 13 per cent of Pakistan's power by next spring.

By most measures, Hubco has been a widely acclaimed success, the financial arrangements for which have provided both a model for Pakistan's similarly applauded private power policy and the impetus for a flush of subsequent private power deals. The deal was particularly important in engendering investor confidence in Pakistan, previously regarded as a politically risky state for such big infrastructure projects. "It has become the cornerstone for the power policy in Pakistan," says the head of one foreign financial institution in Karachi.

Seventeen other private power projects have since closed financing arrangements entailing investments of $3.6bn. They will provide an additional generating capacity of 3,192MW.

So iron-clad are the financial guarantees for Hubco offered by both the World Bank and the Pakistan authorities that investment analysts commonly liken Hubco stock to a fixed-interest security. "Hubco can essentially be viewed as a 30-year Pakistan Eurobond with fixed annual coupon payments yielding 13 per cent at the [then] current price of Rs28.6 a share," HSBC James Capel recently informed clients.

Underpinning the whole is a political risk guarantee from the World Bank, the first such for Pakistan and a factor Hubco officials consider to have been decisive for the pioneering foreign investors involved in the project – chiefly National Power (which holds a 24 per cent stake) and Xenel, the Saudi industrial group (14 per cent). The political risk guarantee, plus a further series of government guarantees, also helped the project attract loans from some 60 foreign banks, 40 of which had never previously lent to Pakistan – and many of which have subsequently lent on to additional power projects in the country.

The project is leveraged at 72:28 debt to equity, with $712m of commercial loans, $426m from multilateral lenders and $372m of equity raised through a 1994 local and international offering.

The government has guaranteed foreign exchange cover for interest and principal repayments and undertaken to index Hubco's revenue stream to the US dollar, adjusted for inflation and depreciation every six months. The Water and Power Development Authority (Wapda), Pakistan's state power utility, has signed a 30-year power purchase agreement with Hubco, guaranteeing payments to cover fixed costs and an equity return at 64.4 per cent of plant capacity with bonus payments for increased off-take and a 10-year tariff of 5.9 cents a unit.

From the Hubco model, the government outlined a broader private power policy in 1994. It offered average bulk tariff rates of 6.5 cents a unit for the first 10 years, similar long-term fuel supply contracts, foreign currency guarantees, income and corporate tax exemptions and a series of additional sales tax and other concessions.

Like those of its South Asian neighbours, Pakistan's incentives were designed to address a growing power shortfall. State-owned generating capacity of 13,121MW fell 2,000MW short of peak demand in 1994, a deficiency that some economists estimated was costing the economy $1bn a year in lost industrial output. Unlike those of some of its neighbours, though, its attempt to "pump prime" private and foreign investment through such a flagship project succeeded admirably.

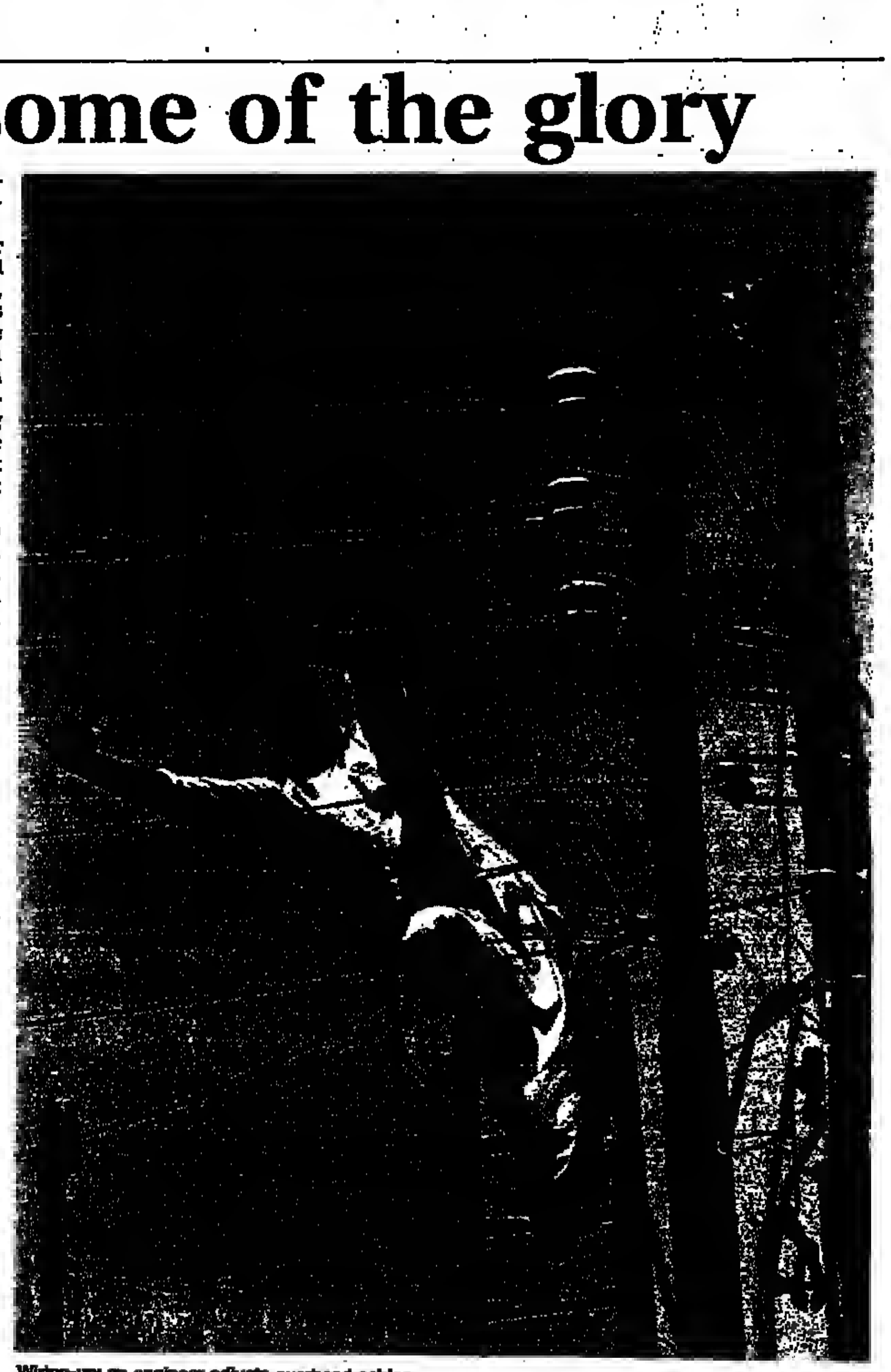
The contrast is starkest with India, which in 1992 embarked on a similar bid to attract foreign investment into power by offering government-backed financial guarantees to eight "fast-track" private power projects. But only one of these has so far succeeded in adding private power to the grid and India's first such project, the Dabhol Power project in Maharashtra, became so politically controversial – being cancelled, renegotiated and finally re-approved – that it raised substantial doubts about the viability of India's policy.

The complexity of India's federal political system is partly to blame: it leaves power policy in the hands of central government, but implementation in those of state governments, making it difficult for the centre to impose a truly co-ordinated national policy. And because its ultimate power purchasers are politically controlled – and heavily loss-making – state electricity boards, rather than one single government utility, India has found it vastly more difficult to match the overall financial and foreign exchange guarantees built into Pakistan's policy.

However, there is increasing concern in Pakistan that the guarantees that have so successfully attracted new power project investors to the country may turn out to be too good. There is some doubt that Wapda, and thus the government, will be able to bear the burden of costs, particularly foreign exchange obligations, it is now contracted to pay.

The premise of the power policy is that the new generation capacity will considerably bolster industrial output and, particularly, Pakistan's export industries. But the structural problems besetting the country's industrial sector and its narrow range of export earning manufacturers – which are mostly cotton and textile based – suggest it will take more than just greater availability of power to boost production. "The concern is developing because the promise of renewed manufacturing activity seems further away than the government hoped," says Mr Atif Bajwa, country manager of ABN-Amro Bank in Karachi.

Pakistan already suffers a chronic balance of payments weakness, a rising trade gap and at best flat non-cotton export output. However, commitments to the 17 finalised power projects will expose Pakistan to an additional foreign exchange obligation – for capital, interest and fuel costs – of between $1bn-$1.3bn a year for the next 12 years, according to recent confidential research by a foreign institution. The result, according to its report, will be "very significant pressure" on Pakistan's balance of payments, costs that "were not fully appreciated" when the power policy was formed.



Wiring-up: an engineer adjusts overhead cables

David Ahmed